

UC-NRLF



QB 281 259

MEMORANDUM ON

Combines and Trade Organisations

BY

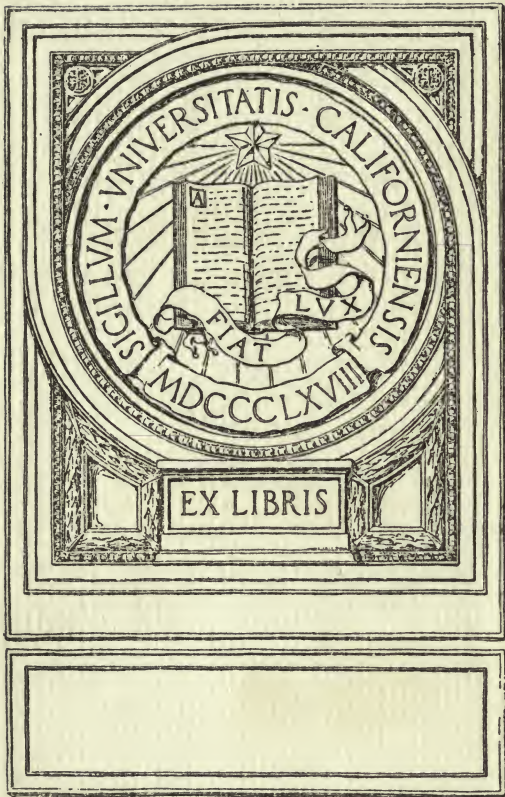
JOHN HILTON

The Garton Foundation

PRICE **1/-** NET

HARRISON AND SONS

Printers in Ordinary to His Majesty
ST. MARTIN'S LANE, LONDON, W.C. 2



EX LIBRIS



Digitized by the Internet Archive
in 2007 with funding from
Microsoft Corporation

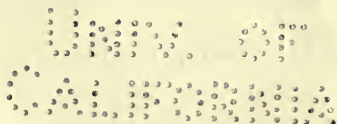
A Study
of
Trade Organisations
and Combinations
IN THE UNITED KINGDOM.

PREPARED FOR THE COMMITTEE ON TRUSTS BY

JOHN HILTON
(OF THE GARTON FOUNDATION).

*Based upon evidence given and documents
laid before the Committee on Trusts.*

[Reprinted from the Official Report of the Committee
on Trusts by permission of H.M. Stationery Office.]



LONDON:
HARRISON AND SONS,
Printers in Ordinary to His Majesty,
ST. MARTIN'S LANE, W.C. 2.

HD 284
H 6

CONTENTS.

I. From Competition to Combination	3
II. Types of Combinations	18
III. Extent and Significance of Combination	44
IV. The Achievements of Combinations	52
V. The Dangers of Combination ..	80
VI. Circumstantial Safeguards ..	96
VII. Special Cases and Aspects ..	III
VIII. Safeguards	121



SECTION I.—FROM COMPETITION TO COMBINATION.

Labels endure long after they have ceased to be descriptions, and the system under which goods are produced, distributed, and bought is still referred to as the "Competitive system." For the last half century, and longer, the economic order has been changing its constitution, but the terminology of the mid-nineteenth century remains and obscures the fact that the economic doctrines of that period are not applicable to the conditions of to-day.

The Law of Supply and Demand.

According to those doctrines, evolved in the course of the Industrial Revolution, supplies, prices, profits and wages could safely be left to adjust themselves. Leave the business world to its own devices, and competition would ensure that all was for the best. Competition would harmonise supplies and requirements; would lead to the survival of

the most efficient business concerns; and would ensure that the level of wages, prices and profits in any trade or industry would always be "just about right." The reasons given were as follows:—(a) If demand exceeds supply competition between buyers sends up the price; (b) a relatively high price spells a relatively large profit; (c) a relatively large profit attracts capital and enterprise to the business; (d) supplies increase; (e) competition between sellers brings down the price to normal; and (f) in the struggle between sellers each endeavours to improve his processes and methods, the more capable succeed, incompetents are driven out, and the general level of economy and efficiency is raised throughout the industry. This competitive theory is still for many an article of faith. It is still conventionally accepted that if any industry is yielding more than average profits, capital and enterprise, attracted by the prospects of abnormal prices, will make their way towards that industry, supplies will increase, and competition between the rival producers or traders will in the natural order of things bring down prices and profits to the normal level. On these assumptions it is still widely taken for granted that competition is an adequate safeguard against extortion, and

is a driving force sufficient in itself to produce a continuous movement towards the highest efficiency.

The Passing of Competition.

The assumptions are, however, no longer valid. In the modern industrial and commercial world competition, which, indeed, never was wholly "free," is becoming less free with each passing year. In very many branches of trade and industry, business concerns whose inter-competition is conventionally supposed to maintain prices at a competitive level have, in fact, working arrangements of one kind or another which prevent competition. Again, in some branches of trade, amalgamations of erstwhile rival firms have taken place, with the result that in some cases so large a proportion of the whole trade is in the hands of one firm, or financially interwoven group of firms, that an effective monopoly is obtained. Where either of these conditions is reached the cycle of automatic impulses and checks can no longer be relied upon to ensure that either prices or profits are "just about right." There is no longer competition between the

associated manufacturers or merchants in those lines of industry or trade, prices are no longer subject to the law of supply and demand, enterprise and capital no longer flow without impediment to where profits are above the average. In these circumstances it is within the power of the group of associated firms or the single consolidated concern to control supplies and regulate prices—within limits which will be discussed later—and that being the case, a new order of problem has come into being.

The Good in Competition.

Competition has, and always will have, its place and value in the industrial process, but its form and sphere of action are changing. As the old form passes, much that was of value in it passes also, and if the new order is to remain healthy and vigorous, equivalents will have to be found. Where there is struggle for survival or supremacy among hosts of small concerns in the same line of business, each man knows what it is to carry the responsibility of a business and to stand or fall by its success or failure. The incentives to effort are strong. Each has a direct

personal interest in improving methods, eliminating waste, reducing costs, and striking out in new directions. There is wide diversity and ample opportunity for experiment. Initiative and resource are developed in large numbers of individuals. There is, without doubt, something of an evolutionary struggle, in which those well endowed with the qualities that make for commercial success survive and the less competent, or worse equipped, or more sensitive go down and out. Again, the small man's independent business is a thing to himself, and, in a very real sense, a part of himself. The small business concern has personality. The employees of a small firm work for a person; and the relations between proprietor and workpeople, if not always cordial, are at least human relations. Business dealings with a small firm are dealings with a person, and there is little doubt that the personality of British industry in the past has been a powerful factor in its development. The type of character produced by these influences may not be wholly admirable, but it is at any rate strong, forceful, and self-reliant, and it is a commonplace that the great majority of those who are to-day organising and directing "big business" acquired their ability and experience

in "small business." As for the productivity of the competitive order, the enormous quantity and variety of goods thrown upon the markets of the world during the period in which competition was in the ascendant affords sufficient proof that, in its own time and sphere, individualism is not to be despised as a productive principle, and if the goods so produced tended to the "cheap and nasty," it will not be disputed that they were at any rate cheap, considering the costs of production and distribution.

The Immorality of Competition.

Competition has vicious features to offset its virtues, and even its virtues are of limited range. It elevates self-interest into a gospel, and makes "Each for himself and the Devil take the hindmost" the first rule of conduct. It applies "buying in the cheapest market and selling in the dearest," to human beings as well as to things, and makes "sweating" not shameful, but shrewd. Moreover, the creative competition which works for success through serving the consumer more acceptably than others, easily degenerates into destructive competition aimed at the ruin of rivals,

or into sharp practice at the expense of the consumer. The spirit and qualities and conduct evoked by competition are not wholly such as to make for either a worthy order of social life or even a serviceable order of industry.

The Wastes of Competition.

For there is a point at which the continuance of competition along the old lines is no longer compatible with industrial efficiency and continued progress. Undercutting among rival manufacturers may lead to goods being sold at the lowest price at which they can be produced in the competing establishments, but it may well be that the price is still high in comparison with what it might be if the individual firms were in friendly communication or if the manufacture were being carried on in few instead of many establishments. Competitive production often means a wasteful duplication of activity and plant; it results in each firm working out its problems without help from the others; it allows each manufacturer to go in for many varieties and patterns and to specialise on none; it requires each firm to buy in small quantities, market in

small parcels, and carry separate stocks ; it leads to effort being given to fighting which might much more profitably be given to improving method and process ; and it may place manufacturers at the mercy of middlemen. It may stimulate the will to improve, and yet deny the means. For these reasons goods produced under a *régime* of free competition may be dear even though the competing producers are making less than a living profit.

The Possibilities of Combination.

Great possibilities of industrial and commercial improvement lie beyond the confines of free competition, and are only to be realised by combination in one or other of its several forms ; by informal consultation and co-operation, by formal association, or by actual amalgamation. These may be tabulated as follows :—

Buying (materials, plant, stores, etc.).

Assured and steady supply of material.

Unification of buying departments and staffs.

Bulk instead of detail purchases.

Greater opportunity for comparison and selection.

Cheaper credit and better discounts.

Standardisation of materials.

Making.

Standardisation of product.

Specialisation in product.

Improvements in plant.

Use of by-products.

Equalised distribution of work.

Quality.

Selling.

Transport economies.

Unification of selling departments and staffs.

Extension of export trade.

Collective advertising.

Lower costs of distribution, fewer middle-

men.
Personnel.

Knowledge.

Interchange of data and experience.

Standardisation and interchange of costings.

Collection and dissemination of trade statistics.

Promotion of scientific and technical research.

The above are the possibilities of combination, not the necessary accompaniments or the invariable achievements. It should be stated at once that no association among the many hundred existing in the United Kingdom at the present time, and few of the numerous mammoth amalgamations, have come as yet anywhere near realising them in full.

The Impulse to Combination.

Neither should it be supposed that the movement towards association and consolidation has been primarily animated by the thought of the great economic possibilities which combination opens out. The reasons given for the formation of particular combinations almost always turn upon the desire to limit competition or, as it is more usually expressed, "to prevent cut-throat competition," with the object of securing higher prices and larger profits.

"There had been a period of very keen competition, with the result that most manufacturers were making little, if any, profit. Many were practically ruined. It was thought that if the existing works were bought up by a company the trade would be placed on a more stable basis."

“ Our association was formed for the purpose of regulating the trade and avoiding unnecessary competition.”

“ Co-operation began among the manufacturers only after a period of severe depression and acute competition.”

“ Our association was formed for the purpose of agreeing on prices and has been the means of preventing cutting, which went on very considerably before the association was formed, the result being that most of the firms were making no profits, or very small profits.”

“ Its immediate object was the removal of price-cutting, which rendered unprofitable practically the entire industry.”

“ The first object of the Association was to safeguard the trade against the losses that are often suffered at such times in consequence of selling prices lagging behind the rising price of materials.”

“ The amalgamation was due to a combination of circumstances. Owing to severe competition and cutting of prices the manufacturers were so reduced in their margin of profit that some step had to be taken to prevent disaster.”

“ The Amalgamation was primarily due to the keen competition which prevailed between the various works, as when trade was quiet almost any prices were taken by some of the firms. Price Associations were in existence prior to the formation of the Amalgamation, but these were not

altogether successful, and it was finally felt that if the concerns were managed under one control it would be much better for the trade generally."

"The industry as a whole had been very unremunerative for many years, and had stood in danger of being crushed out of existence by foreign competition and by too much competition among manufacturers at home, and it was realised that if the industry was to be saved at all the manufacturers would have to come together and form an association."

"Competition was so severe—both among the home manufacturers and from abroad—that no one could make anything out of the trade. Manufacturers were producing more than was really required, and were concerned only with cutting one another's throats. At first when an association was discussed some objected to losing their freedom, but things became so bad that these objections were overcome."

The statements quoted above, though made retrospectively, may be taken as substantially accurate accounts of the circumstances in which the vast majority of associations and amalgamations in this country had their origin, and the motives that prompted their formation. The picture conveyed of industries on the verge of ruin is hardly consistent, it may be said, with the income tax returns for the years in question, but it is to be remembered

that under conditions of free competition the fortunes of an industry are subject to great fluctuations. The final impetus to combination has almost always come in the slump years. "Most associations were born of dire necessity; it was seldom, indeed, that an association came into being until the trade was faced with all-round disaster if it did not combine." In these circumstances it is natural that the immediate objects of combination should mainly relate to the limitation of competition and to the increase of prices and profits. If play be made of the fact that there is in these statements a notable absence of any idea of promoting efficiency and improving organisation for the general benefit, it may be answered that the average business man responds more readily to a "paying proposition" than to a vague ideal, and even where the prime movers in an association have had larger purposes in view first place has had to be given to the inducement of improved prices and profits. "It was as far as we could get the trade to go at that time." In several cases associations formed primarily for restraining competition and securing more profitable prices have become, after formation, active instruments working for better organisations and improved tech-

nique throughout the industry. This is well exemplified in the following :—

“ Although the control of prices was a substantial part of the arrangement, that was only a means of attaining the real object of the Association, which was the creation of a complete organisation whereby our section of the country’s trade could be made more efficient and consequently more prosperous and strong. What we have done in this direction is on record ; it could not have been done apart from the regulation of prices. We have already gone a long way beyond our original programme, and are planning further developments.”

“ The Association was formed after a long period of severe depression. There was a great lack of effective organisation in the industry, and what did exist was wasteful and extravagant. All the worst features of unrestricted competition were present, duplication of patterns and plant, which were only intermittently employed, duplication of selling organisations to an extent which did nothing to increase sales, but served only to render more acute the depression from which the trade was suffering. The result of these conditions was that the resources of the industry were so depleted as to hamper and restrain development in improved methods of production and to discourage the introduction of more modern machinery upon the capital cost of which there was no prospect of any adequate return.”

So long as the individual will to survive is stronger than the instinct of common danger,

and the hope of coming out on top in the industrial scrimmage counts for more than the sense of common interest, competition will hold the field ; but when self-preservation and self-interest are seen to be in line with the general interest, competition is abandoned and co-operation begins.

SECTION II.—TYPES OF COMBINATION.

British Trade Organisation.

The last twenty years have accordingly seen a steady transition from competition to combination in all the leading industrial nations. The movement has accommodated itself to national conditions and characteristics. In Germany and the United States it has culminated in the Kartell and the Trust, each in its way emblematic of the national character. In this country great consolidations have hitherto been less formidable than in America, and associations of independent manufacturers have in no single case been developed to anything like the same logical outcome as in Germany. Yet it should not be too readily assumed that British industries lag far behind those of other countries in effectiveness of internal organisation. Individuality has counted for more in British manufacture than in foreign, and if amalgamation has proceeded cautiously there has been reason in the caution. British combines and

consolidations may not rank as prodigies, but among them are some that can vie in efficiency with any in the world. British trade associations make little parade of their existence or achievements, but there are few corners of British industry in which some kind of trade association is not to be found, and some of them can show a thoroughness of organisation not easily surpassed. What is notable among British consolidations and associations is not their rarity or weakness so much as their unobtrusiveness. There is not much display in the window, but there is a good selection inside.

Combination for Other than Trade Organisation.

Trade associations in the United Kingdom vary widely in character and functions. In most of the great industries there are Employers' Federations formed primarily for dealing with labour questions; and there is a wide network of associations concerned with safeguarding and promoting the general interests of traders in particular lines of business or in particular localities, of which Chambers of Commerce and Chambers of Trade are outstanding examples; but these are not

combinations in the sense in which the word is here used—they do not regulate prices or output or set up any arrangement for the concerted restriction of competition. They may render many of the valuable services that have been catalogued as appertaining to combinations in their full development, but they interfere hardly at all with the individual firm's freedom to buy, manufacture, and sell as it likes.

Honourable Understandings.

As already indicated, combination of the kind under notice can be effected without any formal association. The simplest (though not necessarily the most primitive) type of combination is that which occurs where a number of manufacturers or traders, who would otherwise be competitors, meet from time to time and arrive at an "honourable understanding" or "gentlemen's agreement" in regard to prices, output, division of business, etc. Such arrangements are essentially informal and temporary. There are no documents; there is no association; there is no bond except that of good faith. Combinations of this kind, which may be termed "understandings," are a common feature of local trade, a familiar instance being the

occasional informal consultation between coal dealers or other tradesmen of a locality as to the prices to be charged by all, or the districts which each shall serve, but evidence of similar understandings in respect of trade operations on a national and even international scale is not lacking. While "understandings" may serve a useful purpose in restraining cut-throat competition and avoiding the overlapping of services, they more easily lend themselves to the exploitation of the public than to the improvement of trade organisation and technique. .

Associations for the Regulation of Trade.

The second kind of combination is that in which a large proportion of the manufacturers or traders in a particular line of business form an association for the purpose of regulating the trade. Associations are properly constituted bodies having rules, constitution, officers, subscriptions, entrance fee, etc. The methods of trade regulation are various. Some associations simply fix a schedule of prices to which all must conform; others have arrangements in regard to tenders for contract work; others regulate output by allotting to each member a fixed percentage

of the total production, whatever that total may be, with penalties for exceeding the quota and compensation for falling short. Some partition out the home market, or the foreign trade, among the members, and some have from time to time reinforced their control of the markets by agreements with similar foreign associations as to the amount which shall be exported from each country to certain markets. The distinguishing feature of the Association is that each component firm remains a financially separate business concern, with full freedom of action in all matters that are not ruled by the Association. It is in the industrial sphere what a treaty alliance between sovereign States, as distinct from a Federal Union or an Empire, is in the political sphere. If under stress of circumstances, or for reasons of internal jealousy, it should break up, the constituent firms revert to their original unfettered sovereignty.

Associations Regulating Output.

A more advanced type of Association is that undertaking the regulation of output, or, as it is usually expressed, the "prevention of over-production." The problem of output regulation is one of great difficulty, and

considerable ingenuity has been applied to its solution. Any project for fixing in advance what the output of a given industry shall be requires in the first place for its success that the whole of the firms in the industry shall be in the Association, otherwise whenever, through miscalculation or design, the supply was short of the market demands, business would flow to the non-associated firms. But even where the Association comprises the whole industry it is not easy to forecast market requirements with sufficient nicety to make the operation safe. Again, even when the exact volume of output requisite to the needs of the case has been estimated, there remains the further problem of dictating what proportionate part of the total each firm in the Association shall do, and of enforcing penalties for excess. Unless this is done on a systematic and rigid basis without any room for suspicion or quibble the Association is not likely to hold together for long.

The Pool System.

The plan adopted by the most highly developed of those associations which undertake the regulation of output is as follows.

The principals of the different firms in the trade having been brought together and having decided to form an Association, a secretary is appointed. He must be someone in whom all can have absolute confidence as regards capability, impartiality, integrity and discretion. (There are firms of accountants in London and the Provinces who specialise in this work, and one accountant may act as secretary to a dozen or more Associations). Each firm gives the secretary full access to its books, that he may ascertain what its sales have been over an agreed period. Having obtained the necessary particulars from all the members, the secretary determines what proportionate part of aggregate trade was done by each in that period. A meeting of the members is then called, and the secretary then hands to each a sealed envelope containing a slip stating his percentage. This allotment the members have pledged themselves to accept, and it constitutes the basis of all subsequent arrangements. Thenceforward, at the end of each month, the secretary receives from each firm particulars of its output or sales during the month, particulars which again he will check at the end of the trading year. By adding these amounts the total output of the members for that month is

ascertained. The secretary then calculates what percentage of the total each firm has done, compares that actual percentage with the allocated percentage, and informs each member by how much he has exceeded or fallen short of his quota. If he was exceeded, he pays a sum equal to an agreed percentage of his excess into a "pool"; if he has done less than his quota, he draws a sum equal to an agreed percentage of his deficiency from the "pool." In practice the payments in respect of these "penalties" and "compensations" are not made monthly, but are entered to the debit and credit of the firm, and the balance at the end of the year is paid into or received from the Association's "pool" fund. On receiving its monthly notification from the secretary, each firm can see by how much it must increase or reduce its output in succeeding months if it wishes to come out square at the end of the year when the "pool" is balanced up. It will be observed that no member of the Association knows any other member's quota, much less his output or profit. He knows only that his own quota is so much of the total output of all the members.

Variations on the Pooling System.

The features of the "pool" system as thus far described are in broad outline common to all "pooling" associations, but in two other respects there are differences of practice. Some Associations, besides allotting the percentage of output, fix the price of the product, this being the practice more especially where the goods manufactured are complex and varied; but in the case of more simple and uniform products the regulation of price as well as the allotment of percentage has been found to offer no advantages. In one case a minimum price for the commodity was fixed at the outset, but the actual selling price straightway rose above the minimum, and the fact that increased sales effected by cutting price meant not only a needless loss on the price but a penalty on the excess output was found a sufficient preventive of price-cutting. The other respect in which pooling practice differs is that in some Associations the compensation is the same pro rata as the penalty, while in others it is only one-half. In the former case the reserve fund of the Association is built up by a payment by each firm of an annual contribution equal to perhaps one per cent. of its sales; in the latter

case it is built up from the difference between penalties and compensations.

The tendency of the pooling system would seem to be to stereotype what may be called the ground-plan of the industry. If it should turn out to be advantageous for the whole of the production to be concentrated in a smaller number of establishments, or in one large establishment, the penalty would certainly act as a drag on any tendency to a change in that direction. Similarly, if any one firm introduced a greatly improved process or organisation the penalty would react against its taking a larger share of the trade. These factors do in practice introduce an element of tension into the prolonged working of pooling associations, and the question of periodical revision of the quotas is raised from time to time. But the experience of the German cartels shows that the anticipation of such revision leads to all manner of manœuvres for position, and the re-adjustment of quotas strains the relations of the members almost to breaking point. It may be surmised that when the original quotas under a pooling arrangement are no longer tenable the only course is for the association to dissolve and after a lapse of time re-form. Cases are on record, however, of an association arranging

in special cases for the submission of a grievance in regard to an allotted quota to some independent arbitrator.

Tendering Arrangements.

Where the association is that of a trade in which work is undertaken on contract (as in branches of the iron and steel, engineering, building, printing and other trades) arrangements among members in regard to tendering are common. In some cases the members agree to submit all tenders on the first instance to the association, where the estimates are confidentially registered, and, either a percentage, to be subsequently paid in and divided, added to each, or a tender price decided upon which each shall quote on the understanding that the firm receiving the contract shall pay an agreed percentage into the pool. Another and less questionable method in wide use is for the firms to send in their individual tenders and at the same time notify to the secretary the price they have quoted, whereupon the secretary sends back to each tenderer a list showing, not the figure each has quoted, but the order in which the quotations run, the object being to prevent

the common practice of going to the lowest tenderer and saying, " We should like to give you the contract, but we have a lower estimate ; if you will take 10 per cent. less you can have the job." Having received his list the lowest tenderer knows he is lowest and can hold out for his price. Where this method is practised it is usual for the successful tenderer to pay a sum equal to five per cent. of the contract to the association, which retains one-quarter for association expenses, divides one-quarter forthwith among the tenderers, and puts one-half to reserve in the names of the respective tenderers. The added percentage and the flat quotation systems undoubtedly raise prices against the customer, but the notification method, it is claimed, has no such effect, it merely prevents unfair bargain-driving. The five per cent. paid into the pool and divided is stated to do no more than cover the cost of making out specifications.

Legal Status of Associations.

By Section 16 of the Trade Union Act, 1876, any combination for imposing restrictive conditions on the conduct of any trade or business is a trade union, and the courts will

not entertain any legal proceeding instituted with the object of directly enforcing or recovering damages for the breach of any of the following agreements: (1) Any agreement between members as such, concerning the conditions on which any members for the time being shall or shall not sell their goods, transact business, employ or be employed; (2) any agreement for the payment by any person of any subscription or penalty; (3) any agreement for the application of the funds; (4) any agreement made between one trade union and another; or (5) any bond to secure the performance of any of the above-mentioned agreements. The trade associations here under discussion, being wholly or partly concerned with the regulation of prices or output by the restriction of competition, come under the above definition, and are under the disabilities mentioned. Membership in the association is not unlawful, neither is the making of the above-named agreements, but such agreements cannot be enforced in a court of law. Associations are precluded from registering under the Companies Acts or the Partnership Acts, but they may, and the majority do, register as trade unions. They thereby enjoy the immunities of trade unions, but their position is precarious in that any

member may break away and re-enter into competition whenever he chooses, or flagrantly break the rules to which he has subscribed, and their activities are circumscribed by their being able to pursue only certain objects as prescribed by statute. One method of overcoming these disabilities has been found in the formation of "a properly constituted limited liability company for the investment of all moneys received from the members," having as one of its articles of association a provision that the company may by a three-fourths majority vote of its members determine that the shares of any member may be sold by the company to the other members at a nominal price. Registration under the Companies Acts was obtained in 1912 for a limited liability company having such a provision as one of its articles, and in 1916 the company went through the test of the courts up to the Court of Appeal, and was there pronounced a legal association.

Precariousness of Associations.

Associations are not formed without a good deal of persuasion, are not easily held together, and are not always successful in their objects.

Separatism runs strong in the blood of the British business man. In the judgment given by Mr. Justice Peterson in the case mentioned above some light is thrown upon the tendencies to disruption which are inherent in every association. At a critical juncture in the existence of the association, some three years after its formation, a general meeting was called at which the chairman—

“laid great stress on the difficulties of the Executive, and stated that unless it was the unanimous wish of the Federation, they were not able to continue the business of the Federation. This also was the position of the various committees. Passive opposition was rendering all the work done nugatory. The only alternative was open competition, which would be disastrous to all concerned. It appeared to him that the position they were drifting into in January, 1912, when this Federation was formed, had been forgotten. Some members had come to the conclusion that, as the Federation had not increased their profits, it was of no use to them. The Committees thought that a period of twelve months' open competition might put the matter in a new light. It was pointed out that the outside competition was the least of the troubles; most of the opposition was from within. The constant breaking of the rules in the spirit of refusal to give any information promptly and freely would be the real break-up of the organisation.”

The Combine.

A more advanced type of combination is that commonly known as the "Combine." In the combine a number of previously financially separate firms engaged in one line of business, enter into an arrangement whereby they become financially and commercially inter-connected under some form of central organisation. The component firms may continue to be separate registered companies; or they may, while carrying on business as separate concerns, be in fact financially merged in one holding company. In either case the former proprietors of the merged businesses hold shares in the combine, and may also have a bonus on the earnings of their former businesses which remain under their direction subject to financial and other control by the Combine. In combines of the more loosely connected type the buying and selling may remain wholly or partly in the hands of the component firms, but in the more compact combines the whole of the business is done by the central organisation and the separate establishments work entirely to the orders of the central office. Combinations of the "Combine" type in the United Kingdom are found mainly in the textile industries

(bleaching, dyeing and spinning) and in the wallpaper and cement industries.

Typical Combines, I.

One of the most highly developed and efficiently conducted combines in the United Kingdom is composed and conducted as follows. The Combine was originally one of 22 firms, all of which were limited companies. Since then other businesses have been purchased, and there are now 47 subsidiary companies in existence. Of these, 15 companies are not actually working owing to names being changed or businesses being closed down, but the name is kept alive for the sake of the trade marks, and in case it should be desired to revive the business. These various properties are held by the Combine, which stands in the position of lessor, and provides all the necessary premises, plant, and other requisites constituting the capital assets of the subsidiary companies, whilst all the business is conducted by the subsidiary companies, each being a separate joint stock company, with a nominal capital of £1,000. The Managing Director, who is responsible for the general management of the Combine and its trading is assisted by

an Executive Committee of six directors, to each of whom is delegated specific duties. The trade and working of the Combine is divided into sections, with an individual member of the executive committee primarily responsible for the general results from the section with which he is associated. One member of the executive is in control of the commercial and marketing arrangements. The central administration, financial, statistical, and labour sections are under the supervision of other members of the executive committee. The subsidiary companies are conducted by branch directors acting semi-independently, but under the guidance and supervision of the member of the executive committee to whom the duty has been delegated, and under the control of the managing director.

Typical Combines, II.

Another well-known Combine, capitalised at over £8,000,000, which was formed some twenty years ago, is constituted and worked as follows. A limited liability company was formed to acquire the firms and undertakings which had agreed to enter the Combine. These were taken over by the acquiring company on a profit basis (on the average profit

of the preceding three years), no valuations of any sort being made excepting as regards the stock in trade. Payments were made on this basis in shares and debentures in the central company, the share capital being divided into ordinary, preference, and debentures in equal proportions. Each component firm is run as a separate entity with a responsible director or manager, and is expected to control the quality of its product, to sell the same, and generally to look after its well being; but the small Board of Executive Directors is in close daily touch with the entire business, and gives constant advice and criticism to assist the management on these points. The entire control of finance, the purchase of raw material, stores, etc., and the general control of the policy of the Combine, both as to buying and selling, is in the hands of the Executive Board, assisted by the advice of Committees of the Mill Directors it calls from time to time as occasion may demand.

Typical Combines, III.

• An example of successive developments of a combine culminating in practically the whole of an important industry coming under concerted control is as follows. Twenty years

ago the industry comprised some seventy independent firms distributed all over the country. In 1900 arrangements were made for the formation of a limited company to acquire 27 of these businesses. The issued share capital of the acquiring company was approximately £7,000,000. These 27 firms represented 40 per cent. of the national output. In 1912 a second company was promoted by the first to acquire 32 other firms not included in the original combine. The issued share capital of this second combine was nearly £4,000,000. The purchase of the businesses taken over was effected partly by outright sale of the works concerned, in which cases the original companies were wound up and now trade in common as units of the second combine, and partly by the purchase of controlling interests, in which cases the concerns still trade as separate businesses usually under their original name. The first combine holds 70 per cent. of the shares in the second, and is represented on its directorate by 10 members of its own board, but the two trade as distinct concerns. The two together cover 80 per cent. of the total capacity of the industry. As for the remaining 20 per cent. there have for many years been local alliances concerned with settling

for the districts concerned all terms and conditions of trade, and recently a federation comprising the two combines and the outside alliances has been formed. With this final stage of development the whole of the combined and associated groups in the trade are brought into close co-operation.

The Consolidation.

The distinctive mark of the Combine, as already stated, is the formation of a company to acquire a number of firms in the same line of business, the proprietors being given in exchange an interest in the acquiring company. In a somewhat different category stand the numerous cases in which two or more firms become merged in one. To these it may be convenient to apply the term "Consolidation." Combinations which by origin and organisation belong to the "consolidation" type, are more familiar in the iron and steel, mining, chemical, soap, and sewing cotton industries. Combines are almost invariably of the "horizontal" class, *i.e.*, are formed of firms engaged in the same line of industry and at the same stage of production, though it is not uncommon for a flourishing

combine later to acquire interests in companies producing or importing its raw material or manufacturing its plant. Consolidations, on the other hand, are often of the vertical class, being fusions of firms representing successive stages of production. This is particularly the case in the iron and steel industries.

Example of a Consolidation.

A good example of the consolidation is afforded by the history of a concern which is at present responsible for at least 90 per cent. (probably much more) of the whole British production of the commodity on which it is engaged. About thirty years ago two of the largest manufacturers in the industry agreed to form a central organisation to control the distribution and sale of their various lines in home markets. This central selling organisation was managed by delegates—one from each firm—the leading idea being to conserve to each firm its proportionate share of the business which it had acquired in each market on an agreed basis and its natural increase. It employed wherever possible one set of agents and travellers, centralised depôts and staffs, and the whole cost of its operations was divided in proportion to turnover.

Subsequently another firm in the same line of business desired to take advantage of the organisation, and were included in its operations on similar conditions. After seven years of this joint selling it was decided that the three concerns should be amalgamated, and this was accomplished by the predominant firm acquiring the shares of the other firms, representatives of the latter being added to its Board. A few months later another substantial concern in the same line was acquired by an exchange of shares. The subsidiary companies have been continued as separate organisations, but the local managements are guided and controlled by the Central Board. The financial operations of the whole are controlled and conducted from headquarters. The selling organisation is still maintained and, besides distributing the products of the amalgamated firms, sells goods manufactured by two outside companies, whose products, though in the same line, are not to any large extent in direct competition with the amalgamation. These two outside companies have no voice in the management of the selling agency, but fix the prices and conditions of sale of their own goods and pay their proportionate share of the working expenses. Since its formation this consolida-

tion has built, purchased, or acquired a controlling interest in many other concerns both in the United Kingdom and abroad. The volume of the home trade represents a comparatively small percentage of the total, much the greater proportion being done in foreign countries. Of the establishments now comprised in this consolidation the following three classes are distinguished :—

- (a) Establishments in this country which make for the home trade and for export to those foreign countries which are not directly served abroad.
- (b) Establishments in foreign countries which belong entirely to the consolidation.
- (c) Establishments in other foreign countries which are owned jointly by the consolidation and by other persons in these countries.

Establishments of the (b) class are wholly controlled by the consolidation whilst those in the (c) class are managed by their own directors, who, however, are said to solicit, obtain, and generally follow the firm's recommendations in dealing with matters which do not depend upon merely local conditions or

circumstances. All foreign plants of the (*b*) class send reports to the central office, and are under its direction. The selling prices for all markets catered for by the mills of (*a*) and (*b*) classes are regulated from headquarters. The companies in the (*c*) class fix their own prices after studying the conditions in their respective markets and consulting headquarters as to the effect which the prices may exercise upon other markets.

Other Forms of Combination.

The understanding, the association, the combine, and the consolidation cover by far the greater part of the whole field of that industrial combination in the United Kingdom which results in the concerted regulation of trade, but they are not quite exhaustive. There is still to be mentioned the control exercised over output and prices by the interchange of shares between nominally independent and competing companies, almost invariably accompanied by arrangements whereby directors of one concern sit upon the board of the other. Numerous examples of this are to be found in the coal mining industry. Neither has anything here been said of local

associations of retailers, of merchants' associations and alliances, of the multiple shop system, of the tied-house system in the licensed trade, of the recent great amalgamations in the financial world, of the control exercised over tobacco, meat, and other commodities by interests outside the United Kingdom, nor of the rings and conferences in the shipping industry.

SECTION III.—THE EXTENT AND SIGNIFICANCE OF COMBINATION.

Relative Influence of Combination.

Such are the principal shapes which combination has taken in this country. As to the extent to which concerted control has ousted competition as a ruling factor in the determination of price and output, and in the evolution of trade and industry, it is impossible to speak with any exactitude. Associations concerned with the regulation of price or output, or both, are to be found in almost every branch of British industry. Their number cannot be computed, for many are not registered either as companies or trade unions, and some are purposely carried on as secretly as possible. It may be taken, however, that there are considerably more than five hundred associations, all exerting a substantial influence on the course of industry and price, in being at the present time in the United Kingdom. The most painstaking enquiry yet undertaken into combination in any

section of British industry is that made in respect of building materials, and the conclusion there reached was that 25 per cent. of the materials that go to the building of an average house are subject to full control and 33 per cent. are partially controlled. If particular industries in which combination has made most headway be taken it transpires that in innumerable lines of manufacture anything from 80 to 100 per cent. of the whole national output of the articles concerned is either in the hands of one dominant consolidation or of manufacturers grouped together for purposes of concerted price and other control in a trade association. It would, however, be fallacious to take these latter as typical of the whole range of industry. There are many industries, trades, and services, great as well as small, in which combination has made hardly any headway, and competition is still the determining factor in the fixing of price. The shipbuilding industry may be quoted as a case in point. In a recent report it is stated that most of the shipbuilding and marine engineering firms in this country are independent, and there is no community of financial interest between them as an industry. Competition is always keen, and shipowners have no difficulty in getting numerous offers

at all times when they issue specifications. During dull times competition by every means becomes acute, each firm of shipbuilders or marine engineers does its best to obtain orders without reference to its neighbours, firms lacking orders for their own specialities plunge into other markets, and contracts are accepted at prices below cost of production. Other industries and trades are to be found in which the rival manufacturers or traders are hardly on speaking terms, much less at that stage of mutual confidence which permits concerted regulation of the trade. These extremes of competition are to be set against the extremes of combination in forming any estimate of the relative value of the two factors over the trade and industry of the country as a whole. That relation cannot be expressed in figures ; it must suffice to say that competition is no longer a reliable regulator of prices over a very considerable field.

Influence of War Conditions on Combination.

Moreover, there can be no question that the whole trend of industry and commerce is towards combination. "The movement, in-

deed, is inevitable, for what machinery and invention have done in the past for production, this disposition of smaller bodies to consolidate in larger units is doing for administration." Within recent years the number of trade associations in this country has increased enormously, and, under the influence of war conditions, not only have numbers of existing listless bodies been galvanised into greater activity and enterprise, and the membership of others been increased, but many new associations have been formed, some at the instance of the Government Departments, since it was found easier to deal with a group than with separate firms. Still more, the necessity for fixing the prices of many articles and materials required by the State during the war and the need for rationing materials has compelled the Government to call representative conferences of manufacturers in many industries, and to impose on them duties which have entailed frequent consultations and meetings, and when people who, before the war, were competitors have been thus compelled to meet and discuss common arrangements, it is inevitable that they should discover the advantages of working in concert and establish relations which will make for concerted working for the future. Again,

the war period has been marked by a remarkable increase in the number of amalgamations. One effect of the excess profits tax has been to encourage the buying up of unprofitable businesses by highly profitable concerns, for such purchases were in effect paid for by monies which would otherwise have gone in excess profits duty to the Revenue. Another war influence making for the extension of combination after the war is the enormous development of standardisation and repetition manufacture. The lessons learnt in this connection during the war will not be lost in the change back from war to peace production, but their application to peace production will necessitate collaboration among the various firms composing the particular branch of industry, and collaboration for specific purposes prepares the ground for combination for the regulating of trade.

States within the State.

It is to be anticipated, therefore, that the immediate future will see a marked acceleration of the movement towards concerted organisation and control which had already, before the war, become a formidable feature

of the economic system. Large branches of industry, acquiring that strength which comes of unity, will no longer be subject to any "law of demand and supply" as regards the prices at which their products are sold to the consumer. A group of manufacturers in any branch of industry, having command or influence over the sources of material and the channels of distributing trade, may be in a position to constitute themselves a close corporation from which would-be intruders can be excluded. The prospect opening out is thus one of a series of industrial monarchies or republics, enjoying a sovereignty of their own as regards the amount they will allow to be produced and the prices at which they will sell within the political realm. Here is indisputably a problem which the State in this country has not as yet faced. The current demand for the removal of all "controls" usually carries the implication that, in the absence of public control, supplies and prices adjust themselves and automatically assume that condition which is "just about right." It is evident, however, that over an increasingly large field there can be no question of "free" adjustment or development in the old-fashioned sense. Freedom from public control will there mean not free

competition, but concerted or unified control by private interests.

Benefits and Dangers of Combination.

It has been made sufficiently plain that combination has two important aspects which, while they may usefully be distinguished in considering the problems raised by the movement towards combination, are, in fact, closely interconnected, and may be in large measure interdependent. These are :—

- (a) Improved organisation, affording possibilities of economies in some directions and greater efficiency in others ;
- (b) The limitation of competition, with the resultant power to control prices, output, and development.

It will be evident that in considering the dangers arising from (b), account must be taken of the advantages resulting from (a), and in considering public policy in regard to (b), it must be asked whether action which was desirable in itself might not adversely affect the general advantage arising from (a).

Before these factors can be weighed and a provisional conclusion reached, light is required upon two questions of fact: Firstly, how far are the theoretical gains of combination realised in practice? And, secondly, how far can a compactly organised industry exact in practice monopoly prices and profits from the consumer? Not until an opinion has been formed on these points can a conclusion be reached as to how far the public advantage resulting from improved organisation outweighs or is outweighed by the disadvantage of monopoly prices, or as to whether the benefits of combination could still be obtained if power to exact monopoly prices were curbed.

It will be convenient to examine, in light of the known achievements of British combinations, how far the possibilities of economy and efficiency in regard to materials, manufacture, and distribution, tabulated on an earlier page, have been realised in practice.

SECTION IV.—THE ACHIEVEMENTS OF COMBINATION.

(A) BUYING.

Control of the Sources of Raw Material.

The method of securing adequate supplies of raw materials by "vertical" consolidation has already been mentioned, as also the occasional instances in which combines have acquired substantial interests in undertakings engaged in the production of materials, plant and stores used by the combine. An early instance of otherwise unconnected firms and interests collaborating under State auspices in the promotion of schemes for increasing the production of industrial material within British territories is that of the Imperial Cotton Growing Association; a later instance is to be seen in British Dyes, Ltd. The most noteworthy modern case of similar developments carried on by a single consolidated interest is to be seen in the great soap and allied products consolidation, which

is responsible for the organised developments of large areas in various parts of the world for the production of oil-bearing seeds and nuts, but activities of a similar kind are by no means uncommon among the great British consolidations.

Foreign Supplies.

Where an essential material of an important industry comes mainly or entirely from overseas, the question of the location and control of that source becomes a political as well as an economic consideration. The situation in the early months of the war taught all the belligerents that it is impolitic to remain dependent for essential materials on sources of supply situated in what may at any time be an enemy country, and that a temporary breakdown of supplies may occur even when the sources are in allied territory, should the undertaking have been under enemy control. If war should continue to be an ever-present possibility, the control of sources of industrial material will become more than ever before a political consideration. On economic and political grounds it has recently been recommended by the

Committee on Industrial and Commercial Policy that an organisation, co-operative in character, be formed among British iron and steel manufacturers for the purpose of securing supplies of suitable iron ore. It is suggested that this organisation might ultimately become the owner of large deposits or gain absolute control of them in such a way as to secure continuous and uninterrupted supplies to the British manufacturer. It is further suggested that there should be established a powerful national organisation, formed by a combination of the interests concerned, to secure supplies of non-ferrous metals. The Committee pronounce themselves of opinion that every encouragement should be given by the Government to the formation of combinations of manufacturers and others concerned to secure supplies of materials, and that, where it appears expedient that the control of mineral deposits in foreign countries should be obtained, all practical support should be given. Developments in this direction will hardly fail to be accompanied by a unification of interests and policy in respect of commercial matters generally.

Monopoly of Material.

The control of raw materials by an association promoted specially for the purpose may and doubtless would be so constituted as not to shut the door on aspirants to the industry, but where the control is exercised by a powerful consolidation and covers a large proportion of the available supplies it increases the difficulty of independent capital and enterprise entering the industry.

Associations Hampered by Status.

Little has been done by Associations in this country in the way of centralised or concerted purchasing of materials. There are instances of the Executive or some other committee of an Association being empowered to buy and contract for supplies on behalf of each of its members, but it is complained that any considerable extension along these lines is hampered by reason of Associations being a Trade Union in the eyes of the law, and consequently debarred from entering into enforceable contracts. It would seem that attention is required to the question how trade associations in the United Kingdom are to develop

this unquestionably beneficial side of their potentialities.

Economies in Buying by Consolidations

The economies effected by the unification of buying departments and staffs is not one of the major inducements to amalgamation, but it is a minor one of some consequence. More important is the greater efficiency of the buying. Purchases are made in gross instead of in detail, on better terms and with some reduction in transport charges. Again, the larger orders can be placed direct with the producer or first agent and the toll exacted by a number of middlemen can be avoided. Centralised buying also affords greater opportunity for comparison, selection, and elimination as regards the materials bought, and by standardising materials larger orders are placed for one line and better terms secured on that account. Yet again, a large and substantial concern obtains easier credit terms and larger discounts than would be given to a smaller concern struggling against many competitors; and even where the concern is not so much an amalgamation as a financial inter-connection the resources of the larger unit can be placed at the disposal of smaller

associated firms, by guaranteeing banking accounts and affording other facilities, for the improvement and expansion of their business.

(B) MANUFACTURING.

The Advantages of Standardisation.

Of all the means by which the cost of production can be lowered, none holds greater possibilities than the standardisation of types, patterns and sizes in all such articles as are mechanically produced and lend themselves to repetition manufacture. The adoption by an industry of common standards for component parts of fittings, machines, and structures enable a maker of such parts to put through a straight run of ten thousand pieces where otherwise he might have to break the run a dozen times with a dozen resettings and a dozen sets of specifications, drawings, jags, and gauges. Such standardisation gives the machine-tool maker the opportunity of producing automatic machines specially adapted to one particular job ; it is of advantage to the distributing trade in that it reduces the amount and variety of stock to be carried, and it is a boon to the user in that

the fittings of one maker are interchangeable with those of another.

Standardisation and Combination.

The resistance to standardisation comes in part from the customer, who will not consider the advantage to himself and the maker alike of designing his apparatus or structure, so as to embody the largest number of stock parts, but must have each element slightly different from anything in common use; but it comes even more from the exclusiveness and near-sighted policy of manufacturers themselves. Combination, in the sense in which the word is here used, is not a necessary preliminary to agreement upon the adoption of common standards, as witness the excellent work done by the British Engineering Standards' Association, which has created and secured the adoption of standards among manufacturers uncombined as well as combined, but there can be no doubt that where a strong association exists, or where the bulk of the trade is in the hands of one dominant interest, the adoption of standards is much facilitated. The regularising of specifications and designs is declared to have been one of the principal objects

which led to the formation of associations among the constructional engineering, electrical, and cable-making concerns. In another important association of manufacturers making a line of articles of endless variety and pattern, where the standardisation of parts has already been promoted to some extent, "a scheme is at present going forward for the standardisation of all sizes and gauges throughout the industry so that one maker's parts will be interchangeable with those of all the other makers. This will prove a great convenience in the foreign trade, as one series of parts stocked abroad will serve for the products of all the makers, and even if the products of two different works get mixed at the other side, they can be assembled without trouble." The same association has another scheme afoot. "At the present time each works makes its own tools and dies, but we are endeavouring to set up a central toolshop which should make for the whole trade, so that the best up-to-date machinery can be installed, and the work can be done much better and cheaper than when split up among the separate establishments. Further, we shall then be able to secure that every tool, die, and gauge is of exactly the same size and pattern. This,

along with the other intended standardisations of material, will be of great advantage to trade and public alike.”

Specialisation.

If arrangements can be made among the manufacturers in a given branch of industry whereby, instead of every firm covering the whole ground, each devotes itself to one particular section, great economies and improvements in production will result, for in that case each can instal specialised equipment for its particular line and for that only, each acquires specialised experience and skill, and each can have longer runs on one class of work. Free competition, while making for specialisation of this kind up to a point, has in practice failed to secure its progress beyond that point even when great economic advantage was on the side of further developments.

Specialisation and Combines.

It has been the foreknowledge of the gains to be secured from these further developments of specialisation that has inspired, perhaps more than anything else, the formation of the great combines in the textile and

other industries. The degree to which the prospective gains have been there realised are indicated in the following passages taken from statements furnished by four large Combines :—

“ Soon after the formation of the Combine the Managing Directors decided to concentrate different classes of work in separate works, and with this object in view large sums were spent in reconstructing different works. Prior to the formation of the Combine many different classes of business were carried on in the same premises with the result that on much of the work that was done no profit was made. In those days a man who might do a bulk trade in certain classes of work sometimes had to take small quantities of work for which he was not altogether fitted owing to the merchants insisting upon him doing so, with the result that excessive expense was incurred in changing apparatus and running through small lots. The Combine has gradually sectionised work until, as a rule, only two works within the Combine do the same class of trade. It would probably be more economical to have only one works for each class, but it was recognised that it would facilitate smooth working with the merchants if they had an alternative to go to should they be dissatisfied with the work or have some difficulty with the manager of any particular works, and in practice this system has been found to work very well. The result, of course, is that each works has a longer run of one class of material with the less use of wares and greater rapidity of output. ”

“ It stands to reason that if a works can be kept continuously to one class of work the output must be far greater than if a number of different classes of work were done there, and that, consequently, the cost of production of the one class will be much less than what it would have been had that particular class been included along with a number of other classes at the same works.”

“ There is no pooling of orders in the ordinary sense of the term within the Combine, as each works has its own travellers who call upon the merchants soliciting orders. If a merchant asks a traveller to arrange for goods which the works he represents do not undertake, he informs the merchant which works could do it and is expected to advise the traveller of such works to call upon the merchant.”

“ The advantages of specialisation are secured by the avoidance of overlapping in styles produced at our various mills with the consequent result that longer runs were obtained of the particular patterns produced and the cost of manufacture thereof correspondingly decreased. It was also possible to concentrate the production of specialities where only a limited demand was required and thus save dispersion of effort. Being a fancy trade the Company was able to allocate the class of work according to the suitability of the works under their control and to specialise at any one mill with regard to any specific product.”

Specialisation by Associations.

Specialisation is carried out much more easily where all the firms in a trade are work-

ing as one financial unit, and the records of measures taken by associations are scanty. It is, however, fairly common for members of associations whose orders in some lines are small to arrange for some other member who specialises on that line to manufacture for them or to take over that part of their trade on agreed terms, and there are some cases of small firms, ceasing manufacturing altogether and becoming virtually agents, all their orders being executed with products obtained from other members. There is also at least one instance (in the machine-tool industry) of an association being founded for the specific purpose of enabling each firm to concentrate on one narrow range of specialities. But these are rare instances. Taking the whole range of trade associations in the United Kingdom, it may be said that very little has been done as yet in the way of either standardisation or specialisation, and a wide field offers for progress along these lines in the future.

Limiting Factors.

Both standardisation and specialisation have their dangers. If adopted prematurely or carried to excess, they may prove an obstacle to improvement and exert a

narrowing influence on the minds and lives of those engaged in the industry. But in most industries there is a long way yet to go before any such stage is reached, and, provided standards are periodically thrown open to revision and specialised branches are kept in intimate association with other branches, the dangers can be permanently avoided.

Plant.

In all industrial undertakings the erection and laying out of the factory or works should be planned so as to secure that the premises are constructed in the most efficient manner for obtaining the maximum of output with the greatest economy, and experience shows that the combine or consolidation can yield considerable advantages in this respect. One powerful amalgamation has a central Expert Department, to which all proposals for the extension of, or alteration to, any of their works or those of the Associated Companies, are referred for consideration and advice. This Department has special knowledge of the various processes involved in the manufacture of the various commodities sold by the different companies, and it also has the advantage of the views of the management

of all the companies, so that it is able to put forward a scheme which will embody the latest and most up-to-date construction. The same considerations also apply with regard to the erection of plant and machinery, all questions relating to these matters being referred to a central Engineering Department. It has been found possible, by means of standardisation of buildings and plant, greatly to increase the output of associated companies, and thereby reduce the cost of production.

By-Products.

A group of manufacturing firms is also in a much better position for dealing with by-products arising during the course of manufacture, as such by-products can be collected for treatment at one or more works, whereas the small quantity of by-product of a single manufacturer, coupled with the expense of the necessary plant, may prevent the manufacturer from dealing with the article on a commercial basis.

Equal Distribution of Work.

One frequently recurring accompaniment of competitive industry is the unequal distribution of work among the firms that

compose the industry, leading to the firms in one centre working overtime while those in another are on short time. In the combine or consolidation the prevention of this condition of affairs is a part of the daily routine. It is less easy for an association to provide effectually against unequal distribution of work unless there is a close community of financial interest among the members, but there is testimony to the effect that in the case of associations working on a pooling arrangement the tendency is for the majority of the members to have at all times a proportionate part of the trade with a minimum of short time and overtime.

Effect on Quality.

One noteworthy effect of suppressing competition in price is to bring competition in quality into relief. It is regrettable but true that where the public, in choosing between the goods of rival manufacturers, has to take both price and quality into account, difference in price is apt to sway the choice more than difference in quality, the reason being that price comparisons are more simple than those of quality. Once price differences are eliminated, the customer is left to make his choice

on the sole ground of quality, and the competition of the associated manufacturers for his custom becomes quality competition. The way in which this factor works out in one association is related as follows :—

“ If the standard specification and the minimum selling price be considered together, the effect on the maintenance of quality will be seen. The Association publishes a standard specification for every staple type of product, a specification providing for a reliable and creditable article. There is no compulsion on any member of the Association to manufacture to that specification, but if he turns out an inferior article he is not allowed to sell it at less than the standard price, consequently, since the standard specification is well known throughout the distributing trade, if he does not work up to it he cannot sell his goods. Taking these arrangements all together it can be seen that there is no inducement to turn out rubbish but every inducement to turn out a sound article, and, in fact, quality has been so standardised in this way that at present practically all makers, whether in or out of the Association, work to the standard specification.”

(C) SELLING.

Transport Economies.

One considerable economy open to firms in combination is that of arranging that orders

shall be executed by the firm nearest the customer. Cases are quoted of firms in the Midlands, prior to the organisation of the industry, regularly delivering goods to Glasgow, while a firm in Glasgow was delivering precisely the same goods into the Midlands. Combines and consolidations are in a position to prevent this particular form of waste, and, where the product is a staple or standardised article, have done so to a considerable extent. The influence of associations in this connection is less clear. An association that does no more than fix a schedule of uniform prices for delivery at customer's works must make it immaterial to a customer in Birmingham whether he places his order with a Birmingham firm or a Glasgow firm. The incentive to buy near home is destroyed. Many associations, however, have understandings, if not arrangements, for the demarcation of territories. In one such case the English and Scottish groups in an association have a general understanding that "each shall respect the other's home districts and deliver at equal prices into certain intermediate areas." When a number of firms form themselves into an association "poaching" comes to be considered bad form.

The Central Selling Agency.

Reference has already been made to the one important example in the United Kingdom of financially independent firms marketing their goods through the medium of a joint selling agency. In that case the arrangement developed into amalgamation of the original concerns, and though the Agency still handles the sales of two independent firms, their goods are not to any large extent in competition with those of the dominant concern by which the Agency is run. Thus there is at present no counterpart in Great Britain of the German Kartell, with its central agency marketing the goods of the financially independent but associated members. As already described, combines and consolidations employ the principle of centralised selling more or less, according to the nature of the industry, but associations, have with few exceptions, left the members free to seek and execute their own orders independently of the rest. A good deal of discussion is, however, being given to the question of creating a central selling agency among the members of some associations, and in a few cases tentative steps are being

taken in that direction. The project is principally considered in reference to foreign trade, and the issue resolves itself mainly into whether the present merchant system is the most effective agency for promoting sales abroad that could be devised. It is felt that in practice a central selling agency would supplant all merchants, and though it is recognised that there are many useless and parasitic merchants, whose establishments are a desk and a chair, and who never see the goods they handle, the bulk of the trade is done by well-established and useful merchants, carrying large stocks, whose profits are considered to be not disproportionate to the services they render. The question is one to be decided by the firms and associations themselves. Meanwhile, it may be noted that the Committee on the Iron and Steel trades have recently made proposals of a still more ambitious nature. They recommend that "a national selling organisation be formed for the purpose of marketing British iron and steel products in an efficient and economical manner. This organisation should comprise a central body with separate sections, each dealing with the products controlled by existing associations."

Determining Factors in Central Selling.

The factors entering into the question of centralised *versus* individual selling as applied to the operations of combines are well set out in the following statement by the head of one of the principal combines in the Textile industry :—

“ If the articles produced at each works are identical, or differ only in qualities dependent upon mechanical or chemical science, then great economies can be effected in this respect. It is difficult to generalise on this point, so much depends upon the commodity sold—whether it is sold direct to a retail or wholesale customer, whether it is what can be described as a luxury, whether the material in the semi-manufactured state belongs to the seller or to the buyer, whether the cost of the article sold depends on the degree of mechanical skill, or whether its value depends upon something much less tangible, namely, the changeable taste of the public. If all the works in a combine are producing the same article made from raw or partially manufactured material owned by the seller, sold direct to the retailer and advertised to the public, large saving can be effected ; but a change in any one of these conditions renders the saving more difficult, and if they are not present, the saving becomes problematical, or at the best is very slow.”

Agents or Representatives Abroad.

The advantages of direct representation abroad, which is open only to a substantial concern, as compared with sale through commission merchants or general agents through whom the small manufacturer has to work, have been stated as follows :—

“ Careful study of the markets, their requirements and demands, is essential, and here lies one great advantage of amalgamation, as small arms cannot afford to have sole representatives in each market, and therefore must depend on agents or merchants advising them as to the value and suitability of their products. An agent may be acting for firms representing many different trades, and know little about any one of them. A commission merchant is chiefly interested in securing business for the trades which give him the best return, and withholds the information he obtains as much as possible, using it often in a way which will push the products of the weakest seller. To some markets the manufacturer is also the shipper, to others the manufacturer sells through commission merchants. A combine can at once derive benefit by direct and sole representatives, as it can afford to send out men from its own staff and so gain knowledge at first hand of the requirements of the markets.”

The advantages of large consolidations and combines over smaller manufacturers,

whether acting individually or in concert, in the matter of export business is well exemplified in the two following extracts :—

“ Our trade covers markets in every part of the world, differing in climate, language, coinage, purchasing power of the population, popular taste, and so on. It follows, therefore, that the manufacturer requires to be served by highly trained, educated men, who have made a special study of their subject. We have established an extensive Expert Selling and Advertising Organisation through which they have been able to obtain exact information as to the peculiarities and requirements of each market abroad. This organisation has been placed at the disposal of the manufacturers associated with us, and the result has been that British goods have been exported to outlying districts in various parts of the world at prices within the purchasing power of the various populations who are themselves better served than if each individual firm were trying to do the trade direct, with all its difficulties and expense. By means of the economies effected by association and with the advantage of the organisation already built up, the associated companies have been able to increase largely their export trade. The value, therefore, from a national point of view of the extension of this organisation to the associated businesses will be obvious, as by this Export trade is obtained the ideal of exchange of British manufacturer products for the imported raw materials used in their manufacture. There is also the advantage that the Association Companies can show their samples in the various branches and salerooms that have been

established abroad by us, whilst their interests in regard to trade marks and Custom House, Shipping and Banking requirements can be protected by the one organisation."

"A central export department with specially trained staff has been set up, direct representatives are sent to overseas markets attempts are made to study the markets of the world on a large scale and direct touch is endeavoured to be obtained with all avenues of trade opened up by the Chamber of Commerce, the Board of Trade, the Overseas and other Associations, selection of suitable samples for each market are made from the combined productions of the Company instead of reckless general and oft-times resultless sampling of every mill's productions regardless of the needs of the particular market involved."

Collective Advertising.

Where competition among manufacturers has given place to combination, there is no longer excuse for competitive advertising, and publicity expenditure can be more usefully directed to the object of keeping the product itself before the notice of the prospective customer, or at least of booming the product of the particular group as against that of rival groups. This is of especial moment in the foreign trade, and some progress has been made by associations and by

publicity bureaus supported by particular industries towards proclaiming the superiority of the British as against the foreign article. In many branches of industry, again, the most fruitful kind of publicity is that directed to informing the customer as to ways of using the commodity. This can be done to some extent by individual firms, but better by firms in combination.

(D) KNOWLEDGE.

Interchange of Data and Experience.

In combines and consolidations knowledge as to the best practice in the various branches is available for all the branches. Associations have as yet gone but a little way towards securing a similar free interchange of information among the members, but regular meetings, often accompanied by a lunch or dinner, of those who would otherwise be jealous competitors conduce to a friendly atmosphere in which exchange of views upon all matters concerning the trade take place. Naturally, information as to economical methods and processes is thrown into the common stock much more readily where there is some community of financial interest

such as that afforded by a pooling system. Where there is an association it appears to be much more common for manufacturers to visit each other's works.

The Standardisation and Interchange of Costings.

Many of the unpleasant features of the competitive system are to be attributed not so much to inherent weaknesses as to the fact that most manufacturers have had no precise knowledge of what any particular article cost to produce. Consequently they have been dragged at the tail of something called "current price," and have stood out for more or taken less for this or that article without knowing whether they were losing or gaining on the order. The result has been to place industry at the mercy of bluff and chance, and the industrial deathrate has been high. Apart from any question of combination, the standard of practice in this respect was improving, but the improvement has been much accelerated in those branches of industry that have coalesced into combines or consolidations, for in a large concern accurate costing is a condition of existence. Moreover, in such concerns it is necessary that

costings at all the branches shall be made on a uniform basis, and when that is achieved comparisons are easy, and it is possible to see at a glance from the costing sheets where costs are excessive, while the lowest costs recorded give a standard to which the whole can be brought. It is open to the smallest manufacturer to institute an accurate costing system, but without combination the advantages of comparison cannot be secured. The more advanced and progressive associations have already done a good deal in the way of introducing standardised costing systems among their members, and steps have been taken in some cases, if not for the general circulation of detailed costs in the various works, at any rate for the circulation of attainable costs calculated on the average of several of the more efficient firms. With this schedule at his disposal the less efficient manufacturer can compare his own costs item by item with those given, and see just where his methods are at fault. But as regards the vast majority of associations the improvement of the general level of knowledge and efficiency, either by standardisation or interchange of costings has not yet been attempted.

Scientific and Technical Research.

More and more industry is coming to wait upon scientific research and technical experiment requiring expenditure on a scale far beyond the means of any except the largest and wealthiest firms. To such industries combination in some form is essential if British products are to hold their own in world trade. Many of the large combines and consolidations have their extensive laboratories and experiment workshops, one British firm being known to spend £20,000 a year under this head. Research on such a scale is far beyond the range of any trade association thus far organised or conceived, but the Department of Scientific and Industrial Research, working in conjunction with the professional institutes and the university laboratories, will enable independent firms to collaborate in promoting research, the results of which can be placed at the disposal of the whole industry.

Collection and Distribution of Statistical Information.

It is essential to the efficient and stable conduct of an industry that some central

bureau shall be charged with the duty of following the course and prospects of the trade generally, and keeping the component firms of the industry informed of its broad features. A service of this kind can be co-operatively conducted, apart from any combination for the regulation of the trade, but where there is such combination particulars of trade done and orders in hand are more readily obtainable, and the information circulated is consequently of greater value.

SECTION V.—THE DANGERS OF COMBINATION.

Pitfalls and Drawbacks.

Combination holds great possibilities of economical and efficient production and of improved distribution at lower cost, but it does not invariably or necessarily ensure their attainment. It brings in its train dangers, weaknesses, and drawbacks which, under ill leadership or misguided policy, may produce injurious effects outweighing the benefits. Even on the score of productive efficiency the passing of independent firms under unified or concerted control is not all gain. Where a working unit grows beyond the compass of one man's personal detailed direction "system" must replace that direction, and system can easily degenerate into bureaucracy and red tape. What is gained in power and knowledge at the centre may be lost in freedom and strength at the circumference, and the overgrown unit is in constant danger of becoming inefficient and reactionary. That individual initiative and enterprise which

went to the making of the independent businesses now amalgamated in one giant concern may no longer be stimulated or find expression when the former proprietors become salaried officials, even though they have seats on the board. Independence being destroyed, self-reliance may be weakened. Again, behind the shelter of monopoly a comfortable somnolence may descend upon the whole concern; the fear of change is a well-known characteristic of large administrations, and the large unit may become stagnant or even reactionary. There is a danger of all higher direction passing into the hands of old men and of young minds and ideas being smothered, whereupon it ensues that young men of the best type are not attracted to the business and the level of the higher personnel may gradually decline. The combine and the consolidation have as yet barely spanned a generation, and it is a commonplace that they are still trading upon the momentum of energy and business acumen developed in the formerly separate businesses under competitive conditions; whether the succession can be maintained from men brought up within the combine is a question never long absent from the minds of those upon whom the responsibility for large businesses rests.

Means of Defence.

Whether combination results in improved economy and efficiency or not depends upon how far the persons concerned set to work to realise the possibilities it offers ; but combination implies a limitation of competition, and where competition is effectively suppressed, and a virtual monopoly is established, it is within the power of the combination to raise prices above the competitive level of "just about right." Where a large concern has what amounts to a virtual monopoly of a trade it can make profits that are not the outcome of efficiency, and can use its financial strength against any would-be rival. There are limits to the extent to which this can be done, but a powerful monopoly must be far gone, and the capital at the disposal of the newcomer must be large before an attempt at setting up a rival establishment can be made with reasonable prospect of success. A combination can fortify its position against intruders. It can come to terms with merchants or retailers that they shall not handle any but its own goods, and enforce those terms by conditional commissions and deferred rebates. It can go out to attack with "special fighting lines" any one who

tries to interfere with its trade and drive him out by under-cutting, or compel him to join the combination and conform to its schedule of prices.

The Raising of Prices.

Most associations have been formed with the declared or implicit object of raising prices. In one important case it is bluntly stated that "The object the association has in view is that of raising or keeping up the price to the buyer. . . ." but for the most part a modified phraseology is used, such as "preventing price-cutting," "avoiding cut-throat competition," "securing fair and reasonable prices," "agreeing on prices," "placing the trade on a more stable basis," "providing a fair return on capital and energy"—the contention always being that prior to the formation of the association prices were lower than they ought to have been. Any desire to raise prices above what is "fair and reasonable" is invariably disavowed. "It should be clearly understood that the objects of the association have not been to obtain unduly high prices, but to secure a reasonable profit to the manufacturer." It is explained, in some cases,

rather by way of afterthought, that larger profits need not in the long run entail higher prices to the customer, but may be secured as a result of economies in production and distribution, but the immediate object, and the incentive held out to manufacturers reluctant to come in, has been higher prices. There is nothing inherently improbable in the claim that certain industries at certain times have been under-remunerated, and no blame attaches to manufacturers for combining to improve their position. But the fact that combination can be used to raise prices from low to medium suggests that it can be used to raise them still further from medium to high.

Price Associations.

Associations which confine their activities simply to the fixing of prices are doubtless advantageous to the manufacturers or traders who comprise the association, and they may result in some advantages to the public generally in that the fluctuations of trade and waste of effort attendant upon fierce price competition are eliminated. They make a certain appeal to the contractor and retailer in that each has an assurance that his competitor is buying at the same price as himself,

and all can depend in sending out estimates on a reasonable stability of the price of materials. Again, if the regulation of price by an association results in prosperity and security to an industry, it is possible that the increased profit may be spent upon improvements, so that in the long run the public may gain the advantage of cheaper goods. But unless there is community of financial interest, over and above price regulation, among the members, there is still competition, for it is to the advantage of each to increase the volume of his trade at the expense of the rest. Prices being uniform, competition becomes a matter of quality, and still more of publicity and sales effort, and expenditure in these directions can be afforded most largely by those firms whose costs of production are low. It follows that a firm that knows how to produce good articles at a low cost will keep its knowledge to itself. The fixing of prices adds little to the influences making directly for efficiency and ultimate lower cost.

Price Comparisons Deceptive.

The immediate effect of price associations has avowedly been to "improve" prices.

Whether in the long run the prices so raised have remained above a "reasonable" level is a question that cannot be answered. There is no standard of "reasonableness."* Moreover, figures afford little guidance as to how far prices were raised as a result of association, for the reason that the price of materials and labour and the condition of the markets is constantly changing. If materials are going down and improved plant is being introduced, it does not suffice for an association to say, "We have not raised the price." The question is whether, as a result of combination, prices were higher *than they would otherwise have been*. This point will be of especial importance should there be a fall in the general level of prices during the next few years. Instances can, of course, be quoted of rings of manufacturers, carriers, or traders deliberately conspiring to extort in

* A definition of "reasonableness" has been given in parable form thus:—A publican, who had the painters in, sent along to them some beer which had gone off a little. Enquiring later how they found it, he was told it was "just right." He said, "How do you mean, just right." They said, "Well, Guvnor, if it had been any better we shouldn't ha' got it, and if had been any worse we couldn't ha' drunk it, so what we say is, it was just right."

an emergency fantastic prices from the public or the Government, but we are here concerned with associations presiding over, or consolidations engaged in, steady trade in normal times, and in that connection little more can be said than that the power conferred by monopoly is *capable* of being used to exact immoderate prices.

Prices and Cost of Production.

Where an association fixes prices, and stops at that, there is unquestionably a strong tendency for prices to rise, for they will be fixed at such a level as to enable the least efficient firm of the group to pay its way. But where an association goes further, and works for the raising of efficiency throughout the industry as near as may be to the standard of the best, the schedule price may be no higher than the average of what would have ruled under continued competition.

Profits.

Profits depend upon the margin between the cost of production and the selling price. Although exceptions are not wanting, it may

be said generally that the result of combination has been to increase profits. The spokesmen of combinations are at no pains to extenuate this fact—they rather point to it as evidence that combination justifies itself. The manufacturer, they explain, is an important member of the community, and it is in the national interest that his services should be adequately remunerated. They contend, further, that an ample margin of profit is indispensable to the proper conduct and development of a manufacturing business, in that it encourages and enables the manufacturer to improve his processes and methods, scrap old plant and instal new machinery, undertake structural alterations and general reorganisation, and thereby result in his being able to reduce appreciably his cost of manufacture. Although the assumption made here that profits are mainly expended on improvements is by no means universally true, it is doubtless often the case that works which, in the absence of a decent margin of profit, go from bad to worse would be brought up from bad to better if the profits would allow of the necessary expenditure; but the suggestion that high prices at present are justified, in view of the low prices they will permit in the future, has something in it of the “jam

to-morrow " argument which Alice found so unsatisfying.

Stability and Uniformity of Prices.

Reference may be made in passing to the good influence exerted by combinations upon the steadiness of prices and the advantages that follow from all customers knowing that they are buying on the same terms. The following extracts will serve to illustrate this:—

" The builder, plumber, or joiner, etc., prefer regular prices, because, in tendering for a contract, they know that their competitor can only procure these materials at the same price as themselves, and they are in no danger of being out of the running through some rival having made a fortunate purchase of the raw material."

" Buyers have frequently told me that they prefer to have uniform and stable prices, and to be assured that they can buy their goods as favourably as their competitors."

" We have been asked whether we have got any objection, or whether we have found any disadvantage from prices being fixed by the Association. Our answer to that question is, generally speaking, that we do not. We feel that it is an advantage to our trade as consumers and contractors to have the price steadied. It is much better for us to know what we have got to pay for stuff ahead, and have the thing properly regulated, than it is for us

to be at the mercy of all sorts of jumps in prices or drops in prices, neither of which is conducive to the best interests of our trade; and, of course, it is of advantage to us financially to know that our costs are going to be, and be able to make our arrangements accordingly."

"As you know, perhaps, I am associated more or less with the steel trade, although our main interest is the engineering trade, and I have known cases where, but for the combination in the steel trade, prices would have jumped about very considerably to the disadvantage of the trade. There have been times when the prices ought to have been put up because they have been too low, but the steel trade association has felt that it would be better to steady the position rather than to put the prices up."

Effect on Output.

Differences of opinion as to the effect of combination on volume of output arise from failure to perceive the difference between "supplying the demands of the market in full" and "supplying what the market will take *at the price.*" As regards the great bulk of manufactured articles, the latter phrase alone has meaning. The records of combination naturally provide no case of manufacturers in combination curtailing the output of their wares, except for the purpose of preventing the slump in prices that would

result from a glut, or of raising prices by creating a comparative scarcity. Limitation of output is quite consistent with supplying the *effective* demands of the consumer in full, for demand is conditioned by price, and if the price is raised by limitation of output, demand is to a greater or less degree depressed. This is accepted as a matter of course when the evils of over-production, and the useful part played by combination in preventing it, is under discussion. "More was being produced than was really required, and prices were at the lowest ebb." But there is a reluctance to acknowledge that when prices are raised the effect is likely to be a reduction in the amount produced. The effect of price on demand is, of course, uncertain and variable. The sales of some commodities, for instance, are influenced not nearly so much by their own price as by the price of the finished article, of which they form part. "The consumption of cement is not determined by its selling price at the works of the manufacturer, but by the total cost of the finished work, of which cement forms but a small part." Yet over the whole range of manufactures demand, and consequently output, are conditioned by price. Thus, while it may be said that the main effect of com-

bination on output is not so much one of restriction as of regulation, and that its main tendency is to keep productive capacity roughly equal to effective demand and to distribute work with rough equality throughout the industry, yet the restrictive effect of higher prices on demand cannot be left out of account, and it must be recognised that in so far as combinations raise prices they occasion what amounts to a restriction of output.

Effect of the Quota System on Output.

It is confidently asserted by the promoters of "pooling" associations that the effect of the system is not to diminish output. It is explained that under the system the total output is neither fixed nor even regulated: but is free to expand or contract in accordance with the total demand. It is difficult, however, to accept this view without some reservations. Since those who increase their output beyond the average are penalised, and those who fall below the average are rewarded, it would appear that the aggregate output must tend to be less than it would have been in the absence of any "pool." Yet such statements as "there has never been a time when we have failed to supply

the utmost demand of the market" are doubtless made in good faith and have a certain truth. What happens is that under the influence of the penalties and rewards prices rise, and though the whole demand at the increased price may be met, it is a demand depressed to some extent by the greater costliness of the article. This appears in every way likely to be the immediate effect of the pool system; but against it may be set the consideration that in the long run the gains of steady and equalised production in the various works composing the industry and the greater efficiency due to the removal of obstacles to the interchange of knowledge may accrue to the public in the shape of lower prices, whereupon demand may recover and output increase.

Effect of the Quota System on Efficiency.

It is further contended that the pool system makes for more efficient production in that it provides an inducement to the less efficient manufacturers to let their business, or at least that part of their business for which they are worst equipped, go to the more efficient. Attention is particularly directed to the fact that the ratio of output between

the different firms working under a pooling arrangement is by no means exactly maintained. The margin of profit that can be made by an inefficient firm may be so small that it will choose to close down and draw the compensation, while the firms that are manufacturing most economically may find it well worth while to do more than their quota and pay the penalty. This transference of work from the less to the more efficient firms does in fact, take place to a considerable extent, and it cannot be doubted that as a result production is carried on to greater advantage, but it is not so clear that much of the advantage accrues to the general public, since the greater part of the gains of increased efficiency go in the form of compensation to the less competent producers. Free competition, it may be suggested, equally leads to business passing from the less to the more efficient, with the advantage that the retirement of the incompetent is effected without compensation. To this the reply is made that in practice the ill-endowed and ill-circumstanced manufacturer, and particularly the ill-placed small man, clings tenaciously to life and struggles along on the brink of ruin year after year, a source of weakness and danger to the whole industry

and of expense and waste to the community at large. It is asserted that, with a vexatious disregard of the laws of economic science, he refuses to be eliminated, and that in practice it is quicker and cheaper to pension him off than to starve him out.

SECTION VI.—CIRCUMSTANTIAL SAFEGUARDS.

What Constitutes an Effective Monopoly.

It has been made plain that where associations, combines, or consolidations, have an effective monopoly of a trade, competition can no longer be relied upon to ensure that the prices charged and the profits made are "just about right." It is not necessary for a combination to comprise the whole trade to exercise an effective monopoly. It is stated by those who have had to do with the formation of combinations that an association or a consolidation cannot effectively dominate prices unless it has at least 80 per cent. of the output within its jurisdiction. Under this percentage the competition of the "outside" producers will rule price: above this percentage outside firms will follow the price of the association or dominant firm. Practically all the associations here considered comprise this 80 per cent. or more, otherwise they could not exist as price associations, and there are many combines

and consolidations which embrace more than the prescribed percentage. It may now be enquired how far outside circumstances and considerations impose limits on the power of combinations to raise prices against the consumer. When the safeguard of competition is no longer operative, are there other natural safeguards which come into action to protect the public against extortion and to check any tendency to abuse?

There is unanimous testimony from those connected with combinations having an effective monopoly to the effect that "we would not if we could, and we could not if we would, raise prices above what is fair and reasonable." This claim demands careful consideration, for, if it can be established, there is no menace in combination and no legislative or administrative safeguards are required against abuse of what would appear to be monopolistic power. The reasons advanced in support of this position come under seven heads, as follows :—

Effect on Volume of Trade.

It has been suggested that the raising of prices above what is reasonable would defeat its own object in that the volume of trade

would shrink, plant would be idle, dead on-costs would be incurred, and the yield from the higher prices would be more than offset by the reduction in the gross earnings. This is certainly a factor to be reckoned with in calculating what price will yield the largest measure of profit, but in most industries, assuming an effective monopoly, an enormously higher price could be exacted before the higher profits on the smaller output totalled less than the smaller profit on the larger output. Consideration for the effect on sales is not in itself a dependable safeguard.

Collateral Competition.

There may be an effective monopoly in one article, but if some other article can be used in its stead the undue raising of the price of the first will tend to drive customers to the second. Timber, steel, brick, stone, and concrete can be substituted each for the other to some extent in building, and if one becomes disproportionately dear another will be used in its place. Galvanised sheets are in competition with composition roof material and with tiles. Wood bedsteads are in competition with metal bedsteads. This "collateral competition," as it is termed, undoubtedly

acts as a check on the raising of prices to a point which would encourage the use of the nearest alternative, but it does not ensure that the most desirable article will be sold at a just price. It is, moreover, an easy step from the monopolistic control of one article to concerted control of two or more articles that might be in collateral competition with each other. Collateral competition is a safeguard of limited range and reliability.

Potential Competition.

The reason advanced most frequently and with most assurance, why a combination cannot raise prices above a reasonable level, is that the result of so doing would be to bring new people into the trade—in other words, the surest safeguard against abuse of combination is competition. Many facts can be adduced in support of this contention. Cases can be quoted in which the mere formation of an association, by rousing expectations of higher prices, has brought new firms into the business ; as also of small firms being started for the very purpose of compelling a large consolidation to buy them out. But the efficacy of potential competition depends upon how easily new people can start up in

the industry, and a combination which is so minded can make it not at all easy. Various obstacles can be placed in the way of a would-be entrant. The channels of the distributing trade can be closed against him by exclusive-dealing contracts secured by deferred rebates. The sources of materials and plant used in the industry may be fenced off against him by similar arrangements and understandings. Again, the inducement to start in the trade may be considerably damped by the fear of a concerted underselling or boycott campaign on the part of the combination. Yet again, the industry may be such that a small working unit has no chance against a large, and if a large consolidation is already in possession of the bulk of the trade it may be exceedingly difficult to raise capital for a rival venture in view of the fact that a battle-royal with heavy losses on both sides must ensue. In the face of these handicaps and hazards it may well be that though a profit of 10 per cent. would be enough to make new capital and enterprise look longingly at an industry, it would require a profit of 30 per cent. to induce any one to start up against an existing monopoly. Still further, it is a commonplace that where an outside firm does establish itself efforts are sooner or later

made to take it into the combination, whereupon competition again ceases. Representatives of combinations set great store by the safeguard of competition, and have explained that they take no action against independent rivals "so long as they do not interfere unfairly with our trade: if they do that we take steps, of course, to defend it," but "unfair interference" turns out on enquiry to mean "selling at less than our prices." Distinctions of the same kind are drawn between "legitimate" competition, which should be tolerated, and "illegitimate" competition, which should be suppressed. "If our customers are satisfied with our goods and prices and someone comes and tries to take our trade by offering at lower prices, that is illegitimate competition and we are justified in taking action against it." There can be no doubt that potential competition is always present in some degree as a restraining influence against *extravagant* prices and profits, but it cannot be considered an effective safeguard against monopolistic exactions of a "moderate" kind.

Balance of Power among Combinations.

Where one powerful combination (as of steelmakers) supplies its products to another

powerful combination (as of bridgebuilders), the second can bring restraining influences to bear against any tendency to extortion on the part of the first. One large user of steel has stated, for example, that from time to time the steel associations had put up the price to what he considered an unreasonable one, and when that had happened he had gone to the steelmakers and told them that unless they could show good reason for the price they were asking he and other users would join together and put up a works of their own. With that resource in hand he had always, he said, got satisfaction. As the movement towards combination proceeds this "balance of power" factor will increase in range and moment. There appears to be some possibility, however, where effective monopoly exists, of users of semi-manufactured products regarding undue prices with a tolerant eye by reason of their being able to pass the charge on to the public. Some traces of this attitude are to be found in another statement on the same point: "Even if we had to pay rather higher prices, people who had learned the benefits of their own association would not object to paying a little more to another."

Co-operative Competition.

Combinations of producers or traders can be balanced to some extent by combinations of consumers, and the spread of the co-operative movement, with the possibilities it holds of wider applications, provides one check to the undue raising of prices by the makers and distributors of certain classes of goods. Hitherto the co-operative movement in this country has been concerned mainly with the retail distribution of goods bought in the ordinary way from commercial producers, but manufacture by the societies, whether individually or in federation, of the goods they retail is a natural development and one that has made considerable headway. Any tendency to monopolistic extortion by the manufacturers of such goods must accelerate the movement, and that fact constitutes an ever-present check on abuse; but the principle is not of unlimited application, and where large-scale production is attempted the co-operative organisation tends to get out of the control of the heterogeneous body of consumers and itself to partake of the nature of a combination worked in private, or at least in bureaucratic, interests.

Sense of Equity and Prudence.

A reason frequently put forward why a combination "would never put up prices beyond what was reasonable" is that "it wouldn't be right, and what isn't right doesn't pay in the long run." There is something more in this than the fear of drawing competition. It is a feeling that the combination must keep in the good graces of merchants, retailers and public, or there will be disgruntlement and friction, which will result in losses outweighing the ill-gotten gains. The combination must "keep a good name"; and, above all else, anything like a public agitation or a scandal must be avoided. "We have to think not only of the moment, but of the future," and prudence enjoins that gross advantage shall not be taken of any momentary power to fleece the public. Sensitiveness on the score of equity is not easily squared with the commercial ethic which makes buying in the cheapest market and selling in the dearest one of the prime virtues, and self-restraint by combinations is more probably due to prudence. It would appear that prudence has, in fact, governed the conduct of most combinations in the past, but public feeling is roused not by what is

but by what is known, and unless means are taken to make public the facts as to cost of production in relation to prices and profits, camouflage may prove an easy substitute for self-restraint.

Foreign Competition.

There is ample evidence that, in industries subject to foreign competition, that competition acts as a check upon any tendency on the part of combinations in the home trade to raise prices unduly. But its importance can easily be overestimated. Industrial combination has no frontiers. Before the war British and foreign manufacturers of many staple articles had their understandings, agreements, and associations embodying arrangements for the regulation of prices and the delimitation of markets. In respect of other commodities, associations of manufacturers in this country have come to terms with the whole body of British merchants handling their product whereby foreign goods, whatever their price and however free their entry, were shut off the British market; and in the case of more than one British consolidation, the ramifications of the firm are so wide throughout the

world that any question of foreign competition in the home market is meaningless. Foreign competition has acted, and will again act, as a check upon any tendency to abuse of monopoly power in certain branches of manufacture, and that factor should be taken into account among others in considering fiscal policy, but its sphere of influence, never so wide as popularly supposed, will in all probability be narrowed still further in the years immediately ahead.

Circumstantial Safeguards Inadequate.

These "circumstantial safeguards," as they may be termed, have undoubtedly some considerable measure of restraining influence over the exercise of monopoly power in particular cases, but even when the fullest consideration and weight is given to each and all, it remains evident that when competition is limited or suppressed as a result of combination, there remains a variable but often wide margin of price and profit within which the combination, if it cares to use its powers, can enrich itself to the expense of the public. But over and above the menace of extortion, there is the menace inherent in

all great aggregations of wealth and centralisations of power. Large areas are being carved out of the industrial domain and formed into autonomous industrial states ruled by industrial magnates, whose word is economic law and whose warrant runs as far as the industry reaches. By the exercise of monopoly power they may not only levy tribute on the people, but by their influence and wealth they may bring undesirable pressure to bear upon the administration. It is not necessary to say that combinations have, in fact, thus used their powers. Allegations are made of particular combinations maintaining large secret service funds for the purpose of "obtaining subsidies, strengthening their monopoly, and acquiring a hold over the Press by methods of bribery and corruption," and of combinations in general "exercising great influence where their interests are at stake . . . resulting in the maintenance of prices to the consumer and the direct or indirect influencing of concessions by political and semi-political means," while inability to get information in regard to combinations is explained on the ground that "there is great reluctance on the part of individual traders to appear formally in opposition to powerful interests." Without entering into the

question of the truth of these allegations, it suffices to say that the power to do these things is inherent in monopolistic combinations, and that power constitutes a social and political problem of the first magnitude.

Combinations of Workpeople.

The fact that great powerful organisations of workpeople—the trade unions—exist alongside the combinations of manufacturers and traders does not affect the general truth of the above account of the position towards which the economic system is tending; it merely introduces into the problem of monopoly a supplementary issue as to the proportions in which any gains derived from the exercise of monopolistic power will be divided as between employers and workpeople. Testimony to this is to be found in the fact that on the employers' side separate and distinct organisations exist in many industries for the regulation of trade and for dealing with labour questions. The counterpart of the trade union on the employers' side is the Employers' Federation; those two being paired off, the trade association stands as an organisation that can justly be considered

separately. Yet, where trade combination amounting to monopoly exists, the trade unionist, by exacting higher and higher wages, can increase his earnings beyond any "just about right" level at the expense not of the employers, but of the general body of consumers. Only the traditional belief in the opposed interests of employers and employed has prevented in the past employers and workpeople in industries enjoying a monopoly from conspiring to exploit the rest of the community for their joint advantage, but occasional instances are on record of trade unions agreeing with the employers that in consideration of higher wages being paid they would safeguard the employers' monopoly by forbidding their members to work for any new firm that might attempt to cut into the trade. Such cases of direct collusion are rare, but much the same result accrues indirectly where wages are paid on a sliding scale so as to vary with the price of the product, for where that obtains labour can satisfy its demands much more easily by forcing a higher price to the consumer than by fighting the employer for a larger slice of the existing earnings of the industry. As the control of industry by joint councils of employers and workpeople on the lines of the

Whitley Committee recommendations becomes a reality—*i.e.*, is extended to matters of price, output, limitation of competition, and the regulation of the trade generally—the problem of monopoly will assume yet more formidable proportions. It may be suggested that if and when that happens the problem will provide its own solution, for once industry is fully organised in democratically controlled groups, the equitable apportionment of the gains of industry within each group will be provided for, and there will be a balance of power as among the groups which will prevent any one getting more than its fair share of the national dividend. We appear to be moving towards such a condition, but balance of power among the industrial groups is not likely to prove more satisfactory than has been balance of power among national groups. The duty of adjudicating upon the contending claims of the groups must fall, therefore, upon the State.

SECTION VII.—SPECIAL CASES AND ASPECTS.

Before proceeding to enquire into the various ways in which the community can safeguard itself against the abuse of monopolistic power one or two special cases and aspects of combination call for notice.

Deferred Rebates.

Mention has been made in earlier pages of the use by combinations of the deferred rebate as a means of maintaining monopoly and keeping out would-be competitors from the trade. The system is in extensive use in all branches of industry. It consists in returning to the customer (merchant, retailer, or actual user, as the case may be) at the end of each six or twelve months a rebate equal to 10, 12, or 15 per cent. on his purchases, the condition attached to the refund being that he shall not, during the period, have bought any of the goods produced by the combination from any one except the combination. The effect of the arrangement is that if at any

time during that period the customer is offered an article of better value by an outside maker or by a new firm starting in the industry the buying of that article will cost him anything from one to twelve months' accumulated rebates. The result in practice is that he cannot by occasional trial and gradual change transfer his custom from the combination to the outsider. It must be one or the other. If he desires to change over he must do so at a stroke, and in making the decision he has to consider that he will be no longer able to get anything from the combination except at a premium of 10 or more per cent. The reasons advanced by combinations for the use of the deferred rebate are not altogether reasons of monopoly. They contend that steadiness and continuity of custom are essential to economical manufacture; that by maintaining an even level of prices (which as the market fluctuates may be temporarily under-profitable, as sometimes over-profitable) they are serving the best interest of the customer; and that these mutual advantages cannot be secured if the customer is left free to "jump about all over the place," trading with the combination when its prices are below average, and going elsewhere when they are above. The most

notable example of the use of the deferred rebate is to be found in the case of the shipping companies operating liner services, where the fluctuating competition of the "tramp" and the great importance of securing a steady volume of freights if a regular service is to be maintained lends particular weight to the arguments quoted above. In the manufacturing industries there is less agreement among members of combinations as to the advantage of the deferred rebate, and there are some recent instances of the system being voluntarily abandoned.

The Tying Clause System of Leasing Machinery.

A remarkable and ingenious method of binding customers to one source of supply is to be found in the case of the boot and shoe machinery industry. The system was invented and first developed in the United States, and was introduced into this country some twenty years ago since when it has made great headway, the company employing it being to-day responsible for at least 80 per cent. of the British output of boot and shoe manufacturing plant. Under the system a machine is not sold but leased for

a term of years, and the conditions attached to the lease are embodied in a legal document running to something like ten thousand words. In substance the conditions are that a fixed rent (say ten shillings per month) shall be paid for the use of the machine during the continuance of the lease, and a further variable rent based upon output (perhaps one halfpenny per pair of boots handled by the machine). It is further stipulated, and these are the critical conditions, that where there are machines of other makes in the factory the leased machine shall always have preference over the others when work is short; that no other machines of the kind shall henceforward be obtained from any one but the lessors; that the preceding and subsequent operations on any shoes placed on the leased machine shall be done on machines obtained from the lessors; and that if, on the expiry of the lease, the lessee is not willing to take out a new one for a further period on the same terms, he shall pay a lump sum (say £140) to the lessors. These conditions would give pause to most free business men, for it will be evident that the hiring of one machine must lead in a progressive business to the subsequent hiring of others, and the signing of one lease must result in a succession

of leases each tying the manufacturers to the lessors until he is bound to them hand and foot. But the manufacturer cannot well help himself. The leasing firm holds patents for certain machines and devices (some acquired from the foster-parent American firm, some of British origin) without which a manufacturer is to some degree handicapped, and the bait of the patented specialities covers the barb of the tying clauses. Again, the efficiency of the firm's organisation and the quality of its machinery are beyond question, and an excellent service of operator-tutors, machine tuners, and itinerant operators, is maintained, so that the advantages of connection with it are not to be foregone lightly on the score of regard for personal freedom. But once inside the network of the tying clauses escape is difficult. There is indeed a legislative provision that any lessee wishing to terminate his lease and be relieved of his liabilities under it may apply for an arbitrator to be appointed by the Board of Trade to fix the amount of the compensation he must pay; but in practice the company fix the amount and the lessee pays it, for in the one case in which a lessee insisted on arbitration his costs alone

amounted to five times the compensation demanded. The difficulty of terminating a connection once established is increased not only by the lump sum to be paid whenever a lease ends and a new one is not taken up, but even more by the fact that as lease after lease is taken out on one machine and another the periods overlap, and there will never in the future be a date on which all the leases come to an end and the shoe manufacturer can pay his deferred rents and be clear of his connection. Neither can he escape by dying, for each lease is made binding upon "his heirs, executors, administrators, and assigns." An attempt to mitigate any coercive element there might be in this system was made in the Patents Act of 1907 wherein it was stipulated that a lessee before signing any lease containing restrictive clauses, must be given the option of taking the machine without such restrictive clauses on terms and conditions which he admits to be reasonable, and must declare in signing the tying-clause lease, that he has elected to take that "in the exercise of a free and uncontrolled option"; but as the payments under the free lease are always higher, sometimes very much higher, than those under the tying clause lease, and since the shoe manufacturer making the

higher payments has to compete with rivals making the lower payment, advantage is not often taken of the option. The position at present, therefore, is that 80 per cent. of the shoe factories of this country are tied houses, as regards their machinery, to one machinery firm, and for all practical purposes they are tied in perpetuity. It is difficult to say that any section of the community has up to the present suffered pecuniarily in consequence. Contradictory evidence is offered as to the effect of the system on the cost of production of boots and shoes, and the price at which they can be sold to the public. At the most, the difference one way or the other is not more than a few pence. It is held on the one hand that the dominant firm has improved shoe machinery and revolutionised organisation to such purpose that this country can now compete effectively with America, and has largely increased boot and shoe production by enabling new men to start up in the business who could not otherwise have done so for lack of capital to equip a factory. On the other hand it is held that improvement and invention would have gone forward in any case, and that what the dominant firm has done has been merely to use its position and power to buy up inventions, develop what

seemed likely to suit its own interests, and sit on any that might render its existing machines prematurely obsolete. There is no evidence that the company in question has up to now made inordinate profits, though there is some obscurity in regard to its earnings, but the point is of little significance as compared with the position it is building up for the future, in which connection it may be noted that the corresponding shoe machinery company in America has now a monopoly of 98 per cent. of the total output of that country. None of these issues need, however, be decided here ; the importance of the tying-clause lease system lies in the fact that it could be applied to other things than shoe machinery. Given the means of getting an initial grip on manufacturers by the possession of some indispensable device or material or component a sufficiently energetic group of machine makers could, by means of tying-clause leases, bring the whole industry under their domination and hold it and the general public in fee. It may be desirable that the whole of the manufacturers in certain industries should be served by one machine maker. There are possibilities of great economy and advantage. But the method of attaining it by reproductive legal

instruments is one that neither the manufacturers nor the public can regard with complacency.

Imports Controlled by Combinations Abroad.

In the case of many commodities which are wholly or mainly imported into this country from abroad, the price and supply is controlled by combinations in the country of origin. Imported meat is an outstanding example. In the year before the war nearly 60 per cent. of the imported beef supply of the United Kingdom was controlled at its places of origin by the American Meat Trust which further had a considerable hold on the meat distributing trade in this country, having 144 wholesale branches in 64 towns, and about a thousand retail shops. True, the beef controlled by this foreign combination was not more than one-fifth of the total amount marketed in this country, and the competition of home-produced beef and of beef imported from sources not controlled by the American group was an effective safeguard in normal times against gross manipulations of the general level of prices ; but the intervention of a group so powerful

between the British consumer and the foreign producer of meat made it unlikely that the British consumer would get the benefit of cheap meat production abroad. The American trust, having acquired a virtual monopoly in the Argentine, was in a position to underpay the Argentine farmer, over-charge the British consumer, and pocket the difference, and the experiences of the war period have shown how far that power can be exercised in a time of scarcity. No legislative measures taken here can curb the power of combinations operating in this way in foreign countries. Import duties might serve to relieve the combination of some of its gains, but discriminatory import duties are difficult to work and precarious in effect. Diplomatic representations can be made, but the method is not likely in normal times to be either desirable or efficacious. The question of the control of international trade by private interests is eminently one for international action.

SECTION VIII.—SAFEGUARDS.

The facts and tendencies, with their implications, reviewed in the preceding pages lead irresistibly to the conclusion that while the growth of combinations is in many ways desirable, some kind of safeguard or check is required to prevent the monopolistic power which combination gives being used detrimentally to the public interest. It remains to ask what form such safeguards or checks should take.

Incentives and Rewards.

It is to be remembered that the one dominant incentive to industrial enterprise has been the incentive of private gain. It has been with the object of making an increased profit (or of avoiding financial loss) that these combinations, with their attendant advantages, have been formed. Any proposal which denies an adequate portion of the gains of combination to those who have the wit to see its advantages and the energy and ability to achieve them would defeat its own

object. A distinction must be made therefore between the economic gains of combination, in which those who combine can rightly claim a share by way of reward, and the tribute levied upon the community over and above that reward by the exercise of monopolistic power. If the first is interfered with the tendency towards beneficial combination may be checked ; but steps may be taken to prevent the second without fear of untoward reactions. This does not mean that a combination or consolidation may properly take to itself the whole of the advantages resulting from the saving it effects. Under the competitive system a producer or trader had to offer the consumer some share in the benefits of his superior organisation or process. It is not enough for the combination to say that " it has not raised the price." If it has reduced waste, increased efficiency and is producing at less cost, some part of that benefit is due to the rest of the community.

Repressive Action Undesirable.

Legislative action in respect of monopolistic combinations can take one of two directions. It can be aimed at preventing

combination with the idea of preserving competition as the natural and proper order of industry, or it can take the tendency to combination for granted and concern itself with preventing and penalising any use of the power derived from combination which may prove to be inimical to the public interest. The first may be called "repressive" legislation; the second "policing" action. Monumental examples of the first kind are the American anti-trust laws, notably the Sherman Anti-Trust Act of 1890, which "prohibited under severe penalties every contract or combination in restraint of interstate and foreign commerce and every monopolisation or attempt to monopolise such commerce," and the Clayton Anti-Trust Act of 1914, prohibiting certain practices, which were regarded as lessening competition or tending to lessen competition, such as price discrimination tending to monopoly, tying contracts, the holding by one company of stock in another company and interlocking directorates. Sweeping judgments as to the results produced in practice by this kind of legislative action are not to be lightly made; but the conclusion to which competent critics are forced is that anti-combination laws have proved thus far worse than futile. They

have produced interminable litigation which has for the most led nowhere ; by making combinations of independent manufacturers criminal conspiracies they have encouraged the fusion of firms into great amalgamations ; and they have driven combination underground where its worst qualities have thriven and its best qualities declined. It has failed to break up the huge combination which it has itself indirectly promoted, for, as has been said, " You cannot unscramble eggs " ; and it has prevented the realisation of the beneficial possibilities which above-board combination holds.

Associations of Trusts.

That ill-advised action in this country against associations formed for the regulation of trade would encourage the amalgamation of the now separate firms into great financially-consolidated interests is a matter to which the spokesmen of associations call particular attention. They point to the importance rightly attached in this country to the preservation of the " small " man ; and insist that his continued existence can be assured only by association—without that aid he must inevitably go down before the

“big” concern. Combination, it is argued, in one or other of its forms is inevitable, and the choice before the country is not between free competition and competition restrained by associations, but between associations and consolidations; and the association, if welcomed and encouraged, would have all the advantages of consolidation without its dangers. Association, it is admitted, has in many cases led directly to consolidation, but the reason given is that the public has hitherto looked askance at associations, the law has allowed them no proper status, and amalgamation has been thereby encouraged.

Possible Courses of Action.

The experience of repressive legislation in other countries, and the consideration set forth in the preceding paragraph lead to the conclusion that any action in this country directed towards preventing combination or limiting the size of corporate business would produce evils worse than any it might cure. The ground is thus cleared for a consideration of the various ways in which combinations might be controlled or supervised to prevent

abuse of monopolistic power and to safeguard the public interest, while being otherwise left free to achieve all those economies and improvements which combination alone can furnish.

Nationalisation of Monopolies.

Where industries are by nature monopolistic, *e.g.*, railways, or where in any industry combination has proceeded so far that the whole of the industry is under the control of one corporate interest, nationalisation suggests itself as a practicable recourse. Whether it is deemed desirable in any particular instance must depend upon a multitude of considerations, of which the possible abuse of monopoly is but one. Without entering into the general question of nationalisation, it is sufficient in the present connection to say that nationalisation is not the only alternative to untempered control of monopolistic consolidations by private interests, and is hardly applicable to industries in which combination takes the form of associations, agreements, or understandings.

State Control of Monopoly Prices.

Much experience of the control of prices by the State has been gained during the war period. The results have not been such as to leave any widespread desire for its general continuance after the balance of supply and demand has been restored. But since the abuse of monopoly power mainly finds expression in prices being raised or kept above the level at which they would otherwise have stood, it is arguable that the State should retain permanently the control of prices in all cases where, as a result of association or amalgamation, there is effective monopoly. But the difficulties of applying any such partial control of prices are great. Monopoly gains are so mixed up with ability rewards and other factors, that without painstaking analysis it is impossible to distinguish them except in glaring instances, but unless a fairly definite line can be drawn, the partial application of price-control is hardly practicable. Again, monopoly may be local as well as national. The village shopkeeper who has "no opposition" can, and often does, take advantage of his monopoly. Would his prices be subject to departmental regulation? The difficulties inherent in partial price-control

may not be insuperable, but they do not offer a patently simple way of dealing with monopoly.

Public Competition.

Where it appears that a combination is so entrenched in a position of monopoly, or so favoured by circumstance that private enterprise cannot well enter the field in competition, it is possible for the State or a public authority to do so. The war period has furnished many examples of the application of this check, and attention has been called to the fact that the chief lever by which the Government obtained the most substantial reductions in the price of war material was the experience gained of the actual costs of production in National Factories. It has to be borne in mind that in these cases the State was producing for its own use and not for sale, and the extension of the principle to marketable goods in normal times would in most cases necessitate the setting up of machinery of distribution as well as of production, but it will offer itself as an alternative to nationalisation should that policy be under discussion in respect of any undertakings which are not natural monopolies.

Profit Limitation.

Since the real object in monopoly prices is to increase the profits of the persons wielding the monopoly, the fixing of a maximum rate of profit suggests itself as a possible safeguard against abuse of power. If the proposal be to apply such maximum rate only to industries in which monopoly exists, the difficulties of demarcation already referred to are again encountered. But a more perplexing question, one arising immediately whether the profit-limitation be partial or general, is "profit on what?" If ten per cent. be fixed as the permissible maximum, is it to be ten per cent. on share capital (which may be merely nominal or heavily watered); or on share and loan capital; or on the assessed value of the business, with or without goodwill or on turnover; or on ascertained costs of production; or on prescribed costs of production? Of these various bases for any all-round scheme of profit-limitation to be applied to individual businesses, cost of production is the only one that seems likely to bear examination, but among the items that make up cost of production are wages, salaries, commissions, and fees, and unless these were regulated not only could

they be increased at discretion, but the higher they rose the larger would the allowed "profit" be. The anomalies that have resulted during the war from the application of the cost-of-production-plus-ten-per-cent. principle, even as applied to the repetition manufacture of standardised articles such as shells and standard ships, are well known; it is not seriously believed that the principle could be applied in peace time to the endless kinds and varieties of articles produced for civil use. The amount of accountancy and inspectorship required would probably discount many times over any advantage accruing from the prevention of undue prices.

Sliding Scale Profit Limitation.

The application to industry generally of the "gas-works clause," which provides that any increase in dividends paid shall be accompanied by a *pro rata* reduction in price, has been suggested. But a gas works, like a railway, is in its nature monopolistic, and in virtue thereof such enterprises require parliamentary sanction and must accept legislative control. Even in such cases the effects of control on the quality and price of the services rendered is a subject of contention; but the

fact that the enterprise will have a virtual monopoly is not in dispute, and it is agreed that control, whether for good or ill, is necessary. But to apply the principle to all firms in all industries is a proposition of another order. To apply it to firms or associations which are believed to be in a position of monopoly is, again, to encounter the difficulties of demarcation, while the question of the difference between share capital and the actual value of the business remains.

Profit Limitation by Averages.

A formidable objection to most schemes for profit limitation is that they tend to disallow any rewards for superior ability of management and even to penalise efficiency. But a scheme of considerable ingenuity which, it is contended, would not have this effect has been put forward. It is suggested that, assuming the majority of the firms in any industry to be in an association, the average rate of profit of these firms should be limited to a certain percentage; rate of profit being understood to mean the percentage added to the gross cost of production (including material, labour, salaries, rent, rates, taxes,

etc.) in fixing selling prices. Thus, suppose the maximum average rate of profit were fixed for a given industry at 10 per cent. If at the end of a financial year it were found that the average rate actually made worked out at 12 per cent. the State should require each firm to pay the Treasury a sum equal to 2 per cent. of the cost-of-production value of its output. To facilitate this arrangement, the State should require the association to introduce a uniform costing system for the industry. The advantages claimed for this scheme are, first, that it would avoid all the pitfalls of taxing or limiting the rate of profit on *capital* employed; and, second, that it would not place all the firms in an industry on one flat rate of profit, but would leave the efficient individual firm free to make a much higher rate of profit than the inefficient individual firm. It is further suggested that the scheme would result in the maintenance of reasonable prices, and, consequently, increased output, for if the association found that the rate of profit was running too high it would order prices to be lowered; since it would be more advantageous to get a larger turnover at the lower price and pay no tax than to have a larger profit on a small turnover and pay tax. The scheme further pro-

vides that the limit should be imposed individually on all firms not in the association. This would compel all efficient firms in the industry to join the association—otherwise they would be individually limited to 10 per cent. profit on turnover. It would induce inefficient firms to join the association because if they remained outside they would not get the benefits of association, and would still have to pay any tax levied because the industry as a whole was exceeding the limit. It would prevent the association being endangered by “black-leg” firms undercutting in quality or price. The principle would apply equally to monopolistic combines and consolidations. These would suffer no hardship if they were compelled to increase their income by increasing output instead of by increasing the profit margin. It is recognised that the maximum profit allowed would have to vary from trade to trade according to risk and nature of business. The scheme has much to commend it, but it has many weaknesses and drawbacks. It would force, even more than at present, the industries which it was applied into groups of ironclad combinations. It would require cohorts of inspectors and accountants, men of high business faculty, who might otherwise be

employed in constructive work, to spend their energies in testing accounts, and in opening out the burrows in which businesses might conceal some part of their gains. The fixing of the average rate would in practice be a matter not of calculation but of political pressure, and thereafter the whole of the industry would be interested in throwing dust in the eyes of the official investigators. Moreover, cost of production is no more absolute than capitalisation as a basis of profit estimation, and the rate of wages and salaries would still have to be prescribed. No scheme of profit-limitation as yet put forward appears to afford a practicable safeguard against the abuse of monopoly power.

Profit Taxation.

The appropriation by the State of four-fifths of the "excess profits" of business concerns, as practised during the war, suggests itself as a possible permanent method of relieving combinations of a substantial part of the gains of monopoly. But if it were proposed to retain the excess profits tax permanently, a different basis would have to be found. The datum from which excess

profits were to start was fixed for the period of the war at "the average profit of any two of the three pre-war years." Only in an industrially petrified world could that basis serve for more than a short term; but immediately the replacing of the fortuitous war datum by a prescribed "reasonable" datum is attempted, all the difficulties already enumerated arise. But even were the permanent taxation of excess profits feasible, it is a wholly objectionable method of raising revenue, for it works out in practice as nothing other than an indirect tax on the consumer. No solution of the problem of safeguarding the public interest against the abuse of monopoly lies along the way of excess profits taxation.

Publicity.

Public ownership, control, competition, profit-limitation, and profit-taxation are limited in scope, difficult of application, or hazardous in reaction, but if fuller publicity in regard to the conduct and earnings of business concerns generally, and of the working and effects of combinations in particular, could be secured, the desired object would

be in great measure achieved. Greater publicity would serve three useful purposes. By making known the profits of business concerns, it would stimulate the flow of enterprise and capital into industries in which the demand was greater than the supply; by bringing the operations and effects of combination into the light, it would relieve many unfounded or exaggerated suspicions on the part of the public; and by ensuring that extortion should be publicly pilloried, it would do much to prevent its being practised. In quite respectable business conduct, as in other human affairs, many things are done which would not be done if there were a greater probability of their being made known. "Light is the sovereign antiseptic, and the best of all policemen."

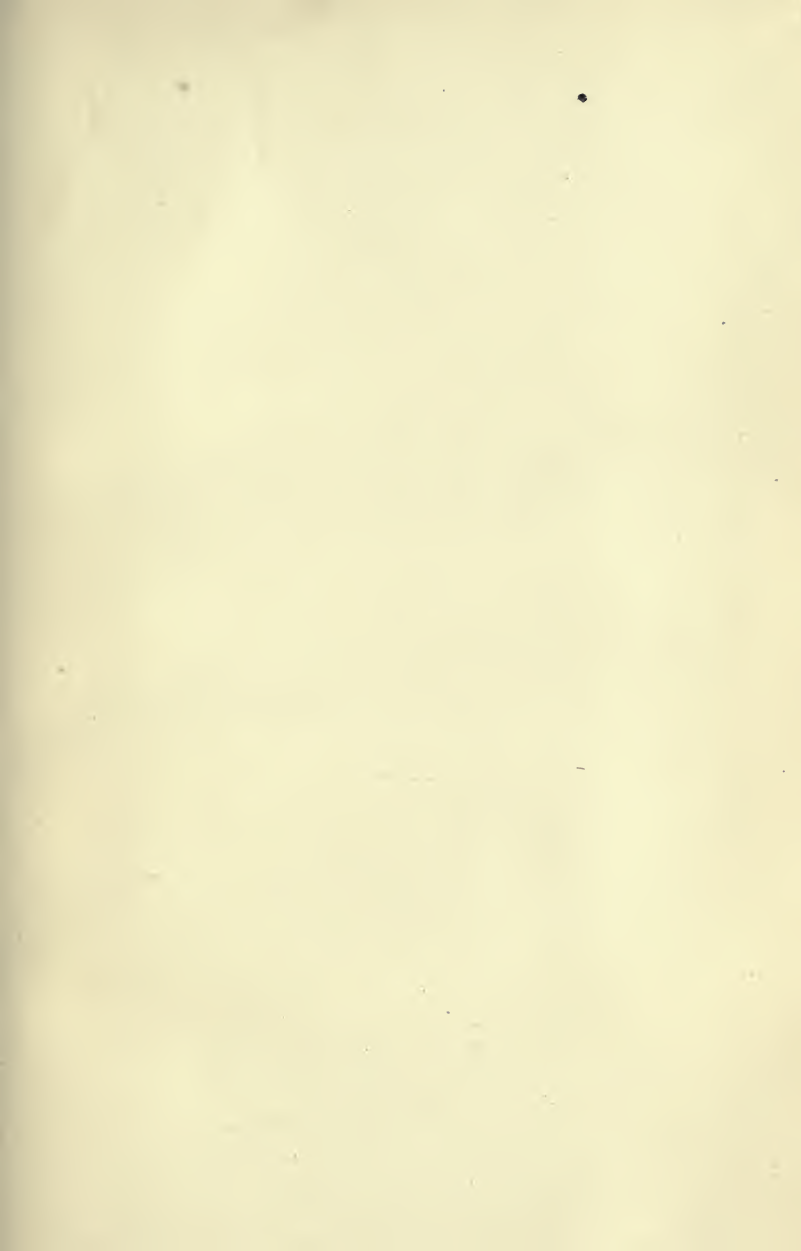
Obviously it is not practicable to require that every business concern shall publish the details of its finances, costs, etc., to the world. The suggestion has been made that all business concerns (one-man businesses and private companies included) should be required to publish balance-sheets after the manner of public companies. The provision in the latter case was originally made for the protection of the shareholder, and it is argued

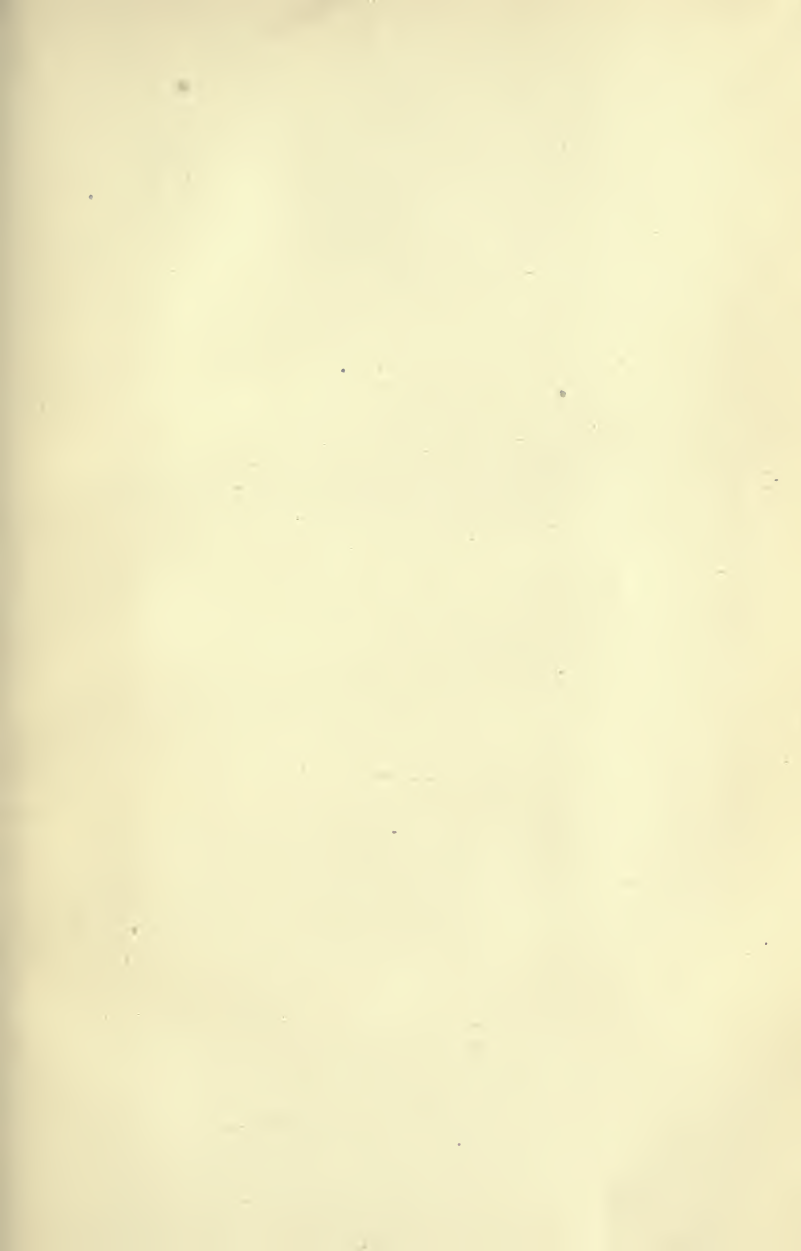
that now the interests of the public are seen to be no less involved, the distinction should be swept away. Some gain would doubtless follow, though at considerable cost, from such a measure; but the great majority of the firms constituting combinations are already public companies, and, further, more intimate information than any balance-sheet affords is required for the investigation of suspected cases of monopolistic extortion.

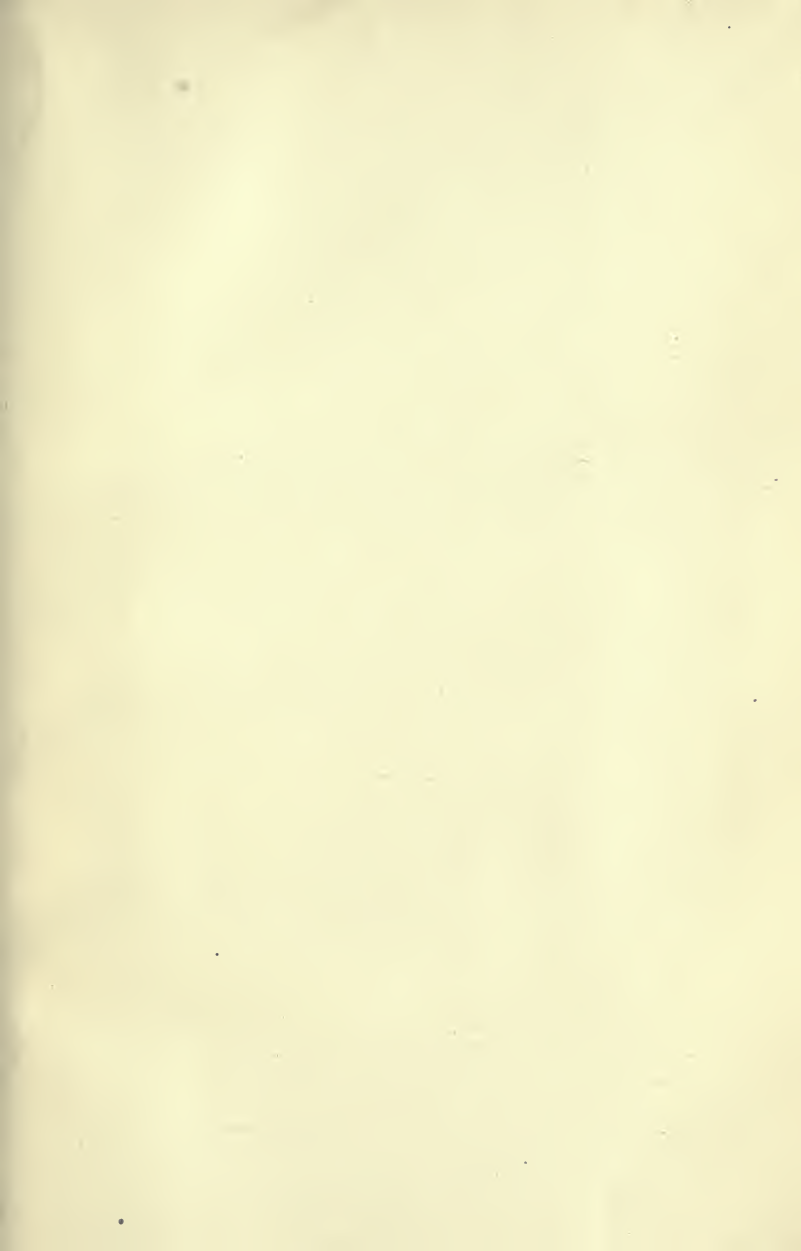
Public Supervision.

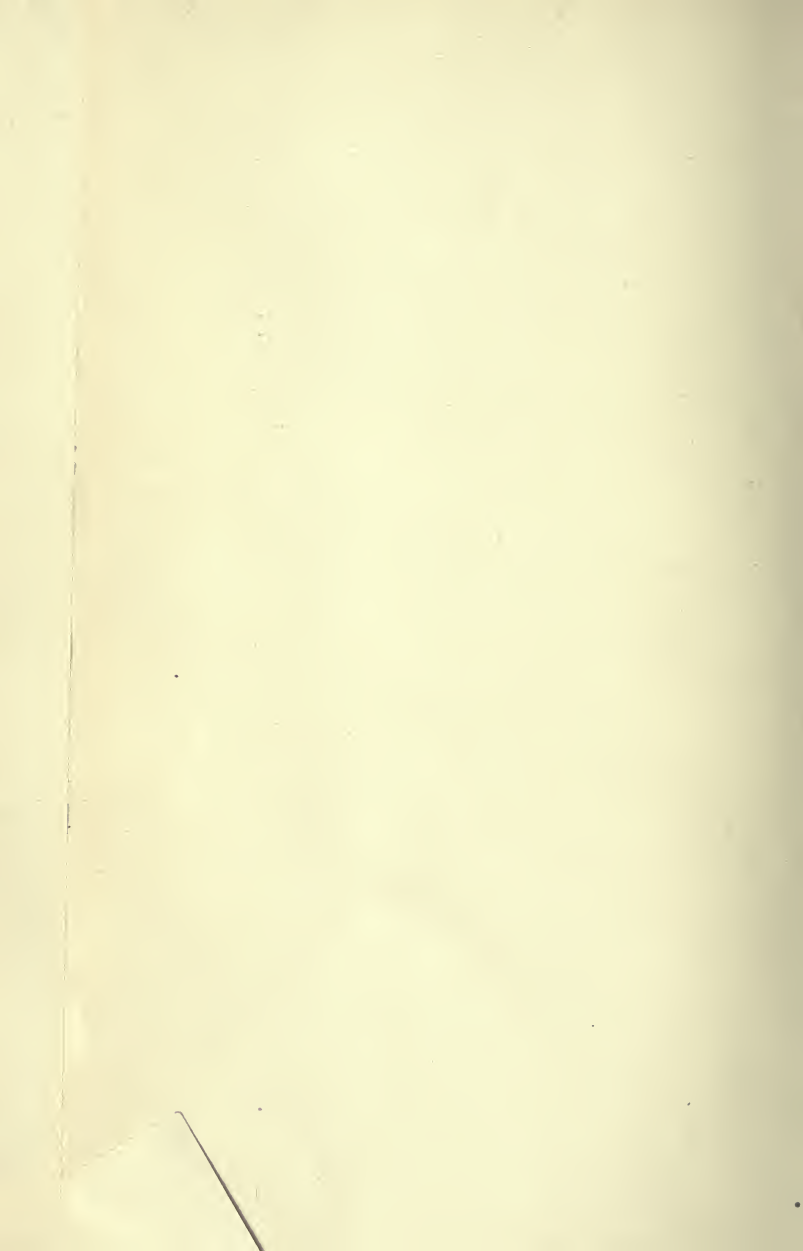
The conclusion, therefore, reached is that there should be established a department of State charged with the duty of informing itself as to the nature, extent and development of combination of all kinds in so far as they tend to the restraint of trade and the creation of monopolies, and of making preliminary enquiry into complaints made in regard to them; and that a tribunal should be set up to which the department could apply for powers to obtain particular information, and would refer for full investigation cases in which combinations appeared to act injuriously to the public interest. The requisite publicity would thereby be secured

in two ways : the relevant facts as to offences proved before the tribunal would be made public, and the department would present annually to Parliament a report upon the nature, extent and development of combinations. Publicity thus secured would not only be in itself a considerable safeguard against the abuse of monopolistic power, but it would serve to reveal actions and developments for which publicity alone was not a sufficient safeguard, and against which further action should be taken, whether in the form of nationalisation, public competition, or the control of prices or profits.









THIS BOOK IS DUE ON THE LAST DATE
STAMPED BELOW

AN INITIAL FINE OF 25 CENTS
WILL BE ASSESSED FOR FAILURE TO RETURN
THIS BOOK ON THE DATE DUE. THE PENALTY
WILL INCREASE TO 50 CENTS ON THE FOURTH
DAY AND TO \$1.00 ON THE SEVENTH DAY
OVERDUE.

MAY 25 1913

18 May 5 4 DTB

MAY 4 1913

YB 19312

428958

ND 2848

H6

UNIVERSITY OF CALIFORNIA LIBRARY

